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The Commonwealth of Massachusetts *Auditors' dept*

DEPARTMENT OF THE AUDITOR

ANNUAL REPORT

FOR THE

FISCAL YEAR ENDING JUNE 30, 1950

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THOMAS J. BUCKLEY
STATE AUDITOR

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DEPARTMENT OF THE AUDITOR

ANNUAL REPORT

For the

FISCAL YEAR ENDING JUNE 30, 1950

I have the honor to submit the Annual Report of the Department of the Auditor for the fiscal year, July 1, 1949 to June 30, 1950.

Section 12 of Chapter 11 of the General Laws defines the duties of the Department of the State Auditor.

"SECTION 12. The department of the State Auditor shall annually make a careful audit of the accounts of all departments, offices, commissions, institutions and activities of the commonwealth, including those of the income tax division of the department of corporations and taxation, and for said purpose the authorized officers and employees of said department of the state auditor shall have access to such accounts at reasonable times and said department may require the production of books, documents and vouchers, except tax returns, relating to any matter within the scope of such audit. The accounts of the last named department shall be subject at any time to such examination as the governor and council or the general court may order. Said department shall comply with any written regulations, consistent with law, relative to its duties made by the governor and council. This section shall not apply to the accounts of state officers which the director of accounts of the department of corporations and taxation is required by law to examine. The department of the state auditor shall keep no books or records except records of audits made by it, and its annual report shall relate only to such audits."

All requirements of the law relating to the duties and functions of the State Auditor have been carefully complied with for the fiscal year ended June 30, 1950.

Personnel: As of June 30, 1950, the permanent Civil Service staff of this office included eight World War I veterans, twelve World War II veterans and ten non-veterans.

The following permanent Civil Service appointments have been made:

Eileen P. Mann to Junior Clerk-Typist
Dorothy E. Nyberg to Junior Clerk-Typist

Mr. Ernest W. Towne retired on December 31, 1949 after thirty-seven years of service with the Commonwealth.

New Audits: During the fiscal year, the first audit of the Soldiers' Home in Holyoke was completed.

General: Individual copies of audit reports for all State activities have been submitted to His Excellency the Governor, the Lieutenant Governor, the President of the Senate, the Speaker of the House, the Chairman of the Commission on Administration and Finance, the Comptroller, and the State Librarian. Copies also have been forwarded to the administrative head of each institution or agency concerned, the chaplains, medical boards and trustees of the institutions, and the commissioner of each department.

Summary of Audits Completed: The following listed audits of State departments and institutions have been made since my last report to the legislature:

SCHEDULE OF REGULAR AUDITS COMPLETED	FISCAL YEAR 1949-1950		Report No.
Department or Institution	From	To	
GOVERNOR AND COUNCIL:			
Alcoholic Beverages Control Commission	June 20, 1949	June 14, 1950	2737
Armory Commission	Sept. 7, 1948	July 17, 1949	2638
Art Commission for the Commonwealth	June 3, 1949	Feb. 7, 1950	2684
Ballot Law Commission	June 2, 1949	Feb. 7, 1950	2681
Commission on Administration and Finance	June 30, 1948	June 30, 1949	2634
Commission on Uniform State Laws	June 3, 1949	Feb. 7, 1950	2683
Commissioner of Veterans' Services	Dec. 28, 1948	Dec. 7, 1949	2659
Massachusetts Aeronautics Commission	Mar. 21, 1949	June 20, 1950	2735
Massachusetts Fair Employment Practice Commission	Jan. 21, 1949	Nov. 7, 1949	2653
Military Division of the Executive Department	Sept. 8, 1948	July 17, 1949	2637
Military Reservation Commission	Sept. 7, 1948	July 17, 1949	2636
Milk Regulation Board	Nov. 4, 1948	Nov. 1, 1949	2687
Outdoor Advertising Authority	Oct. 1, 1948	Feb. 13, 1950	2689
Port of Boston Authority	Aug. 2, 1948	Jan. 16, 1950	2675
Public Bequest Commission	June 2, 1949	Feb. 7, 1950	2682
Soldiers' Home in Chelsea	July 15, 1948	July 11, 1949	2639
Soldiers' Home in Holyoke	Mar. 27, 1949	June 13, 1950	2738
State Library	June 6, 1949	Feb. 8, 1950	2686
State Planning Board	Jan. 11, 1949	Oct. 11, 1949	2622
State Racing Commission	Nov. 16, 1948	Oct. 31, 1949	2649
State Superintendent of Buildings	July 1, 1948	July 1, 1949	2614
SECRETARY OF THE COMMONWEALTH:			
General Department	July 21, 1948	Sept. 15, 1949	2643
Commission on Interstate Co-operation	June 10, 1949	Oct. 11, 1949	2619
TREASURER AND RECEIVER GENERAL:			
General Department	Jan. 19, 1949	Jan. 4, 1950	2673
Emergency Finance Board	June 16, 1949	Oct. 17, 1949	2623
Massachusetts Public Buildings Commission	Aug. 11, 1948	Sept. 19, 1949	2627
State Board of Retirement	Jan. 1, 1949	Dec. 31, 1949	2730
ATTORNEY GENERAL			
	July 7, 1948	Nov. 2, 1949	2651
DEPARTMENT OF AGRICULTURE:			
General Department	Sept. 14, 1948	Nov. 1, 1949	2666
Division of Livestock Disease Control	Nov. 4, 1948	Nov. 1, 1949	2668
Division of Milk Control	Sept. 27, 1948	Nov. 1, 1949	2665
DEPARTMENT OF BANKING AND INSURANCE:			
Division of Banks	Nov. 22, 1948	Dec. 6, 1949	2670
Division of Insurance	May 25, 1949	May 3, 1950	2719
Division of Savings Bank Life Insurance	Sept. 20, 1948	Sept. 28, 1949	2630
Supervisor of Loan Agencies	Mar. 10, 1949	Feb. 6, 1950	2680
DEPARTMENT OF CIVIL SERVICE AND REGISTRATION:			
General Department	Jan. 26, 1949	Feb. 13, 1950	2688
Architects, Board of Registration of	Aug. 10, 1948	Sept. 19, 1949	2620
Barbers, Board of Registration of	May 9, 1949	Mar. 8, 1950	2694
Certified Public Accountants, Board of	Jan. 12, 1949	Mar. 28, 1950	2702
Registration of	June 24, 1949	Mar. 30, 1950	2709
Chiropody, Board of Registration in	June 24, 1949	May 2, 1950	2714
Dental Examiners, Board of Registration in	Apr. 13, 1949	Apr. 25, 1950	2713
Electricians, State Examiners of			
Embalming and Funeral Directing, Board of	June 20, 1949	May 5, 1950	2726
Registration in	Sept. 3, 1948	Sept. 23, 1949	2625
Hairdressers, Board of Registration of			
Medicine and Nursing, Board of	Dec. 15, 1948	Oct. 27, 1949	2648
Registration in	Mar. 16, 1949	Apr. 20, 1950	2710
Optometry, Board of Registration in	Mar. 22, 1949	Apr. 20, 1950	2711
Pharmacy, Board of Registration in	Apr. 5, 1949	June 21, 1950	2734
Plumbers, Board of State Examiners of			
Professional Engineers and Land Surveyors,	Jan. 7, 1949	Nov. 9, 1949	2654
Board of Registration of	June 24, 1949	Apr. 24, 1950	2712
Veterinary Medicine, Board of Registration in			
CLERK OF THE SUPREME JUDICIAL COURT OF THE COMMONWEALTH			
	June 7, 1949	Mar. 22, 1950	2687

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Department or Institution	From	To	Report No.
DEPARTMENT OF CONSERVATION:			
General Department	May 3, 1949	May 8, 1950	2721
Fisheries and Game, Division of	May 3, 1949	Apr. 25, 1950	2715
DEPARTMENT OF CORPORATIONS AND TAXATION:			
General Department	As of June 29, 1950		2736
Appellate Tax Board	May 4, 1949	Mar. 8, 1950	2696
Division of Accounts	Nov. 22, 1948	Apr. 12, 1950	2707
DEPARTMENT OF CORRECTION:			
General Department	Jan. 3, 1949	Mar. 29, 1950	2703
Massachusetts Reformatory	Mar. 8, 1949	Nov. 9, 1949	2655
Reformatory for Women	May 9, 1949	May 10, 1950	2723
State Farm at Bridgewater	July 21, 1948	July 20, 1949	2640
State Prison	Sept. 21, 1948	Apr. 3, 1950	2706
State Prison Colony	May 2, 1949	Mar. 21, 1950	2699
DEPARTMENT OF EDUCATION:			
General Department	June 1, 1949	May 22, 1950	2727
Bradford Durfee Textile Institute	Apr. 4, 1949	Jan. 31, 1950	2677
Division of the Blind	Aug. 24, 1948	July 12, 1949	2632
Lowell Textile Institute	July 6, 1948	Aug. 31, 1949	2646
Massachusetts Maritime Academy	June 1, 1949	June 7, 1950	2728
Massachusetts School of Art	June 14, 1949	June 13, 1950	2739
New Bedford Textile Institute	Feb. 11, 1949	Mar. 31, 1950	2704
School Buildings Assistance Commission	June 30, 1949	Apr. 20, 1950	2716
State Teachers College at Bridgewater	July 1, 1948	July 7, 1949	2616
State Teachers College at Fitchburg	Dec. 6, 1948	Jan. 16, 1950	2674
State Teachers College at Framingham	Oct. 15, 1948	May 1, 1950	2717
State Teachers College at Lowell	Sept. 16, 1948	Oct. 11, 1949	2644
State Teachers College at North Adams	June 20, 1949	June 19, 1950	2732
State Teachers College at Salem	Jan. 10, 1949	Dec. 1, 1949	2657
State Teachers College at Westfield	June 2, 1949	June 1, 1950	2733
State Teachers College at Worcester	Aug. 16, 1948	Jan. 3, 1950	2661
Teachers' Retirement Board	Dec. 31, 1948	Dec. 31, 1949	2685
University of Massachusetts at Amherst	Sept. 30, 1948	Oct. 31, 1949	2664
University of Massachusetts at Fort Devens	May 2, 1949	Sept. 30, 1949	2631
INDUSTRIAL ACCIDENT BOARD	Nov. 16, 1948	May 15, 1950	2725
DEPARTMENT OF LABOR AND INDUSTRIES:			
General Department	Mar. 28, 1949	Feb. 27, 1950	2690
Division of Employment Security	Feb. 7, 1949	May 29, 1950	2729
Labor Relations Commission	June 13, 1949	Mar. 27, 1950	2701
LEGISLATURE:			
Sergeant-at-Arms	Mar. 8, 1949	Oct. 19, 1949	2626
DEPARTMENT OF MENTAL HEALTH:			
General Department	July 1, 1948	July 7, 1949	2628
Belchertown State School	Mar. 1, 1949	Apr. 3, 1950	2705
Boston Psychopathic Hospital	Feb. 8, 1949	Mar. 9, 1950	2695
Boston State Hospital	Mar. 30, 1949	Apr. 7, 1950	2700
Danvers State Hospital	Nov. 29, 1948	Dec. 6, 1949	2669
Foxborough State Hospital	Oct. 28, 1948	Sept. 19, 1949	2624
Gardner State Hospital	Aug. 23, 1948	Oct. 11, 1949	2645
Grafton State Hospital	July 6, 1948	Aug. 15, 1949	2662
Medfield State Hospital	May 25, 1949	Apr. 10, 1950	2709A
Metropolitan State Hospital	May 11, 1949	May 15, 1950	2722
Monson State Hospital	Sept. 1, 1948	Aug. 1, 1949	2618
Myles Standish, Division of	Nov. 16, 1948	Nov. 4, 1949	2652
Northampton State Hospital	July 6, 1948	Sept. 1, 1949	2641
Taunton State Hospital	Dec. 27, 1948	Dec. 15, 1949	2672
Walter E. Fernald State School	Oct. 14, 1948	Oct. 24, 1949	2647
Westborough State Hospital	Feb. 23, 1949	Apr. 3, 1950	2708
Worcester State Hospital	Jan. 10, 1949	Feb. 6, 1950	2679
Wrentham State School	Feb. 1, 1949	Feb. 1, 1950	2678
METROPOLITAN DISTRICT COMMISSION	July 1, 1948	July 5, 1949	2615
DEPARTMENT OF PUBLIC HEALTH:			
General Department	July 23, 1948	Oct. 3, 1949	2642
Lakeville State Sanatorium	Oct. 15, 1948	Oct. 3, 1949	2629
North Reading State Sanatorium	Dec. 2, 1948	Nov. 1, 1949	2650
Pondville State Hospital	June 1, 1949	Mar. 14, 1950	2697

Department or Institution	From	To	Report No.
DEPARTMENT OF PUBLIC HEALTH (Continued):			
Rutland State Sanatorium	Nov. 1, 1948	Dec. 1, 1949	2658
Westfield State Sanatorium	May 2, 1949	May 1, 1950	2718
DEPARTMENT OF PUBLIC SAFETY	Jan. 25, 1949	Dec. 9, 1949	2660
DEPARTMENT OF PUBLIC UTILITIES	Sept. 7, 1948	Mar. 8, 1950	2693
DEPARTMENT OF PUBLIC WELFARE:			
General Department	Nov. 22, 1948	Mar. 2, 1950	2691
Massachusetts Hospital School	Mar. 15, 1949	Jan. 23, 1950	2676
Tewksbury State Hospital and Infirmary	Mar. 21, 1949	Dec. 12, 1949	2671
DEPARTMENT OF PUBLIC WORKS:			
General Department	Mar. 15, 1949	May 12, 1950	2724
Registry of Motor Vehicles	Oct. 26, 1948	July 5, 1949	2621
State Airport Management Board	Apr. 25, 1949	Mar. 16, 1950	2698
YOUTH SERVICE BOARD:			
General Department	Nov. 29, 1948	Nov. 17, 1949	2656
Industrial School for Boys	Mar. 28, 1949	May 8, 1950	2720
Industrial School for Girls	Dec. 21, 1948	June 1, 1950	2731
Lyman School for Boys	Oct. 13, 1948	July 18, 1949	2617

Comments: The following comments exceptions and recommendations have appeared in audit reports issued during the 1949-1950 fiscal year and have been listed in the same sequence as the Schedule of Audits Completed -- Fiscal Year 1949-1950.

GOVERNOR AND COUNCIL

ALCOHOLIC BEVERAGES CONTROL COMMISSION

REPORT No. 2737

Inventory of Seized or Purchased Liquor: The previous audit reports have stated that seized or purchased liquor was not posted to the inventory record until it was destroyed, and it was noted that this procedure was still in operation. It is understood that future transactions of this nature will be posted to the inventory record on date of receipt at the office of the commission.

COMMISSION ON ADMINISTRATION AND FINANCE

REPORT No. 2634

Allotment System: Previous audit reports have covered, in considerable detail, operations of the present allotment system and have pointed out that the system is both expensive to maintain and ineffective in its operations. Maintenance of the allotment system adds substantially to the work of the budget bureau, it requires the operation of additional ledgers by the Comptroller's Bureau and every spending agency of the Commonwealth. In addition previous audit reports have demonstrated that allotment processes have not only failed signally to reduce deficits but that deficits have actually increased since its adoption.

A review of the allotment and related records in the Comptroller's Bureau indicate a substantial increase in the number of allotment requests during the past two fiscal years. In this connection, it was noted that during the current fiscal year funds are being allotted on a four month basis rather than the three month basis formerly used. This is obviously an indication that an attempt is being made to physically improve the operation of the allotment system by decreasing the number of transactions handled within the twelve month period.

The question has also been raised in a previous report as to the constitutionality of the allotment system. The Constitution places with the General Court alone the power to appropriate and, therefore, to be consistent it must be said that only the General Court has the power to decrease or withhold appropriations. Delegation of this power to an appointive official (the Budget Commissioner) is seriously questioned.

Encumbrance System: The previous audit report pointed out that under Chapter 636 of the Acts of 1947 which revised Section 29 of Chapter 29 of the General Laws, the Comptroller was obviously required to maintain the present system of encumbrances since that amendment states that the Comptroller:

"....shall refuse to permit a disbursement or the incurring of an obligation if funds.... sufficient to cover such disbursement or obligation..
...are not available...."

Maintenance of the encumbrance system has added expensive red tape to operations of the financial controls of the Commonwealth and has not provided any additional control. In addition it has placed responsibilities upon the Comptroller that belong with the head of each spending agency.

Chapter 636 of the Acts of 1947 should be amended by striking out that part which requires the Comptroller to maintain control over the incurring of obligations.

Deficiencies - June 30, 1949: As of a recent date the Comptroller's Bureau was holding \$133,177.69 in unpaid obligations of the Commonwealth, incurred during the last fiscal year, which the Bureau has incorrectly, in most cases, labelled as deficiencies, and has advised the various individuals and companies to whom these payments are due, that they cannot be paid until the General Court provides deficiency appropriations. In most instances the label of "deficiency" is unfair to the State agency concerned, and it is manifestly unjust to vendor, since appropriated funds are legally available to pay these obligations and are being withheld by arbitrary action of the Commission on Administration and Finance.

These so-called deficiencies fall into three general categories:

1. \$14,178.05 represents obligations for which no funds are available.
These are true deficiencies and will require legislative relief.
2. \$49,845.31 represents invoices received which are in excess of

amounts reverted as of the end of the fiscal year, however, a substantial portion of these bills could be paid immediately.

3. \$69,154.33 represents obligations which are less than the appropriated balances which were reverted at the end of the fiscal year. All of these items could be paid immediately by the Commission on Administration and Finance.

The following points must be emphasized: (a) The substantial part of these obligations are being withheld from payment by arbitrary red tape created within the Commission on Administration and Finance. (b) Such payments are not prohibited by any statute. (c) Appropriated funds are available to pay these bills. (d) Final clearance of these bills under the terms of the rules laid down by the Commission on Administration and Finance will involve lengthy and expensive legislative action. (e) Vendors are being unfairly penalized by being forced to wait nearly a year for payment.

Attention is further directed to the fact that under the provisions of Section 13 of Chapter 29 of the General Laws, which has not been recently amended, in previous years the Commission on Administration and Finance has cleared such bills for payment without legislative action.

The following three examples were selected at random from the records of the Commission for the year ending June 30, 1947:

<u>Appropriation</u>	<u>Amount</u>	<u>Status</u>
0101-18	\$25 00	Paid in September, 1947. No amount had been reserved for this payment.
0301-06	45 50	Paid in September 1947. No amount reserved.
0403-07	60 32	Paid in September, 1947. Only \$45.00 had been reserved, but the full amount was paid.

The following letter, received by the Department of the State Auditor, gives a specified example of the type of payments now being withheld by the Commission on Administration and Finance.

October 28, 1949

Gentlemen:

We are having considerable difficulty in effecting payment of our invoices covering material shipped to the above activity during the months of March, April and May, 1949.

The invoice dates and amounts are as follows:

<u>DATE</u>	<u>AMOUNT</u>
3/22/49	\$ 399 93
4/26/49	52 92
5/ 9/49	286 02
5/24/49	261 04
4/26/49	254 02
5/ 9/49	402 44
	<u>\$1,656 37</u>

In discussing the matter of payment with the Steward, we are advised that payment of these invoices cannot be made before April of next year, due to lack of available funds. This circumstance was verified with the Comptroller's office at the State House.

These shipments were made on bona fide purchase orders from the Commonwealth of Massachusetts. These orders were for steel pipe, when this material was scarce, but, in line with our policy of rendering prompt service and cooperation to all departments of the State at all times, we furnished this material without question.

It does not seem possible that we should now be asked to wait for payment covering these invoices until April 30, 1950 or until such time as the Legislature approves the 1950 appropriations.

We, therefore, respectfully request that this matter be reviewed by your office and the necessary action be taken so that payment of our account may be made promptly.

A copy of this letter is being sent to the Myles Standish Division with a memo asking them to forward all necessary papers and invoices for your prompt handling.

Your cooperation in the above matter will be appreciated.

Very truly yours,

Credit Department

Attention is directed to the fact that this order was originally placed during the fiscal year ending June 30, 1948, and that funds to meet this obligation were reserved in the appropriation of that year. Delivery of the goods was not completed because of material shortages until May 24, 1949, but the bill was received for payment in the Commission on Administration and Finance on June 29, 1949. Despite these facts the funds reserved for payment were cancelled on June 30, 1949 and the vendor was told that he could not be paid without legislative action. It is also worthy of comment that in addition to the 1948 encumbrance which was reverted, a total of \$7,656.33 was reverted in the same appropriation for the 1949 year.

It is recommended that the Commission on Administration and Finance pay these bills without unnecessary reference to the General Court.

COMMISSIONER OF VETERANS' SERVICES

REPORT No. 2659

Reimbursements to Cities and Towns for Veterans' Benefits: It was noted that there was a substantial increase in expenditures within this classification between the 1948 and 1949 fiscal years. This was occasioned by a change in statute. Section 6 of Chapter 584 of the Acts of 1946 which became effective on January 1, 1947 reads as follows:

"Subject to such decision and allowance, one half of the amounts of veterans' benefits paid to applicants having settlements in the cities or towns making such payments, and all of the amounts of veterans' benefits paid to other applicants, but none of the expenses attending the payment of such benefits, shall be paid by the commonwealth to the several cities and towns on or before November tenth in the year after such expenditures."

In conformance with this statute there was paid from the 1949 appropriation the following amounts:

1947 Reimbursement	\$1,716,069 26
1948 Reimbursement	<u>1,953,545 51</u>
	<u>\$3,669,614 77</u>

Henceforth reimbursement will be made on a current basis.

MASSACHUSETTS AERONAUTICS COMMISSION

REPORT No. 2735

Reimbursement to Cities and Towns for Airport Construction Projects: During the current audit period funds were expended from special appropriations for construction work at various municipal airports within the Commonwealth. The Federal Government, the Commonwealth and the various municipalities concerned, participated in the program for airport construction projects in the approximate ratio of 50%, 25% and 25% respectively.

All contracts awarded under this program are approved by the Massachusetts Public Buildings Commission and the Massachusetts Aeronautics Commission. The progress of the work is checked by engineers of the latter agency.

Invoices are presented to the Massachusetts Aeronautics Commission by the municipalities for reimbursement. During the current audit period, State expenditures under the special appropriations for these projects totaled \$284,296.69.

Checks are sent by the Federal Government payable to the Massachusetts Aeronautics Commission as agent for the municipalities concerned. Total amount of Federal checks received during the audit period was \$670,719.72.

The Commission deposits these checks in its own bank account and almost immedi-

ately draws checks on this account payable to the several municipal airports where work is being performed under the program.

Apparently the amounts awarded by the Federal Government under this program are not controlled by the Commonwealth to any extent.

The following schedule indicates the amounts of Federal and State Aid to Cities and Towns for airports from March 21, 1949 to June 20, 1950:

<u>City or Town</u>	<u>State Aid</u>	<u>Federal Aid</u>	<u>Total</u>
Worcester	\$157,087 33	\$343,010 90	\$500,098 23
North Adams	31,403 54	93,964 44	125,367 98
Fall River	32,853 09	80,629 40	113,482 49
Lawrence	21,474 75	33,868 75	55,343 50
Chatham	12,795 12	41,386 84	54,181 96
Nantucket	10,001 34	22,920 11	32,921 45
Gardner	11,787 26	20,700 00	32,487 26
Pittsfield	-	21,592 50	21,592 50
Martha's Vineyard	6,894 26	12,646 78	19,541 04
	<u>\$284,296 69</u>	<u>\$670,719 72</u>	<u>\$955,016 41</u>

A State aid payment to Pittsfield is in process and will be made in the near future.

Bonding of Employees: It was noted that the checks for both State and Federal Airport Projects Accounts may be signed by one of the following employees:

The Director of the Commission
The Senior Accountant
Senior Clerk

The senior accountant was the only one of the three bonded. It is recommended that all personnel authorized to sign checks be bonded.

MILITARY DIVISION OF THE EXECUTIVE DEPARTMENT

REPORT No. 2637

Rifle Range at Camp Curtis Guild - Purchase of Land for Rifle Range: Chapter 291 of the Acts of 1925 provides for a State Rifle Range and establishes a basis for fees to be charged. The chapter reads in part as follows:

"The state quartermaster, with the approval of the adjutant general, shall establish a system of fees sufficient to provide for the entire cost of maintaining said range plus five per cent per annum on the investment of the commonwealth therein, and shall file drafts of such further legislation, if any, as may be necessary for this purpose with the clerk of the house of representatives not later than December first of the current year and at the same time file copies thereof with the budget commissioner."

The records of the Armory Commission show that on February 16, 1926, the Commissioners voted to award for damages the following amount

The Woburn National Bank	\$ 7,663 75
The Bay State Military Rifle Association, Inc.	57,336 25
	<u>\$65,000 00</u>

It was noted that for the 1949 fiscal year the provisions of Chapter 291 of the Acts of 1925 were not met as is indicated by Schedule No. VIII in this report which shows an operating loss of 2.47% for the 1949 fiscal year.

Parking Permit - State Land Adjoining the Commonwealth Armory: Chapter 627 of the Acts of 1947 authorized the Adjutant General, with the approval of the Governor - Commander-in-Chief - to permit the use, for motor vehicles purposes, at certain times, of the State land adjoining the Commonwealth Armory in the City of Boston. A permit was issued to the Commonwealth Avenue Parking Inc. for \$2,000.00 per annum with option of renewal. This permit was signed by the Adjutant General and was approved by

Lieutenant-Governor, acting for the Governor.

A renewal of the permit was granted to run from July 8, 1948 to July 8, 1949 for \$2,000.00. This permit was cancelled July 22, 1949 and was not renewed. In its place a permit was granted for the use of the space to the same company for \$30.00 a day for specified days. In addition a charge was made of \$1.00 a day for the use of electricity.

It would appear that the best interests of the Commonwealth would be served by awarding this permit to the highest bidder after inviting competitive bids.

Federal Participation Contracts: Service contracts between the Federal Government and the Commonwealth of Massachusetts, whereby the Commonwealth is reimbursed 75% of operating costs of certain installations, are as follows:

<u>Contract Number</u>	<u>Location</u>	<u>Amount To Be Reimbursed to Commonwealth by Federal Government</u>
W19-093-NG10	Aviation Facilities at Logan Airport	\$18,000 00
W19-093-NG17	Barnes Field at Westfield	18,000 00
W19-093-NG23	Curtis Guild Rifle Range at Wakefield	13,500 00
W19-093-NG24	Camp Edwards at Falmouth	4,500 00
W19-093-NG11	Commonwealth Armory, 925 Commonwealth Avenue, Boston (151st Aircraft Control and Warning Group)	3,750 00
W19-093-NG16	Commonwealth Depot and Motor Park at Natick	30,000 00
W19-093-NG22	Fort Devens Airfield at Ayer	4,500 00
W19-093-NG18	Commonwealth Maintenance Depot, Whittemore Maintenance Center at Ayer	11,062 50
W19-093-NG21	601st Signal Light Construction Company at Worcester	3,750 00
W19-093-NG19	Commonwealth Armory at Boston (181st Engineers Aviation Company)	3,750 00

Accounts Receivable - Federal Participation: Two charges totalling \$2,356.08 did not appear in the accounts receivable. These charges were in excess of their respective contracts and the Federal Government has refused to pay them. It is suggested that this matter be turned over to the Attorney General for disposition.

Balance in Hurricane and Flood Relief Appropriation: A balance of \$250.00 which has been carried in this account on the books of the Division was reverted on August 29, 1949 to General Revenue.

OUTDOOR ADVERTISING AUTHORITY

REPORT No. 2689

Employees Bonded: It was noted that although a senior clerk is bonded for \$2,000.00, another clerk handling considerably more money is not bonded. It is suggested that all employees handling funds be bonded.

Records of Board Meetings: An examination of the minutes of the board meetings showed that a board member was paid for the meeting of December 2, 1948 although she was not in attendance.

General Bookkeeping: It was found to be impossible to tie up renewal application cards with the cash book records due to the failure of many firms and individuals to return these cards to the office.

Stubs of renewal permits could not be tied up to the cash book entries as many permits were voided and the stubs were not so endorsed.

It was noted that the renewal cards of one company indicate permit renewals totaling \$75.00 - only \$3.00 appears on the cash book; however, this balance has been outstanding since June 1949 and apparently no attempt has been made to collect it.

It is suggested that when a receipt is made out for payments that it indicate the various kinds of application or permit paid for.

An analysis of renewal permits issued through inventories show that 52 permits were issued in excess of the cash book receipt.

In addition to these 52 permits it was noted that an entire permit book (22951 to 23100) could not be located although the previous inventory showed that the book was on hand at that time, and thirteen permits (27888 to 27900) were not filled out and the original copy of each one was missing.

The condition noted herein indicates a certain laxness in handling permits, renewals, etc. It is advised that steps be immediately taken to tighten all controls so that this type of problem will no longer develop.

The previous audit report commented on the condition of the cash book. During the course of the audit a representative of the Comptroller's Bureau reviewed the situation and recommended that a new book be obtained and used exclusively for income. This would allow ten columns for analysis. The present book would be continued as a general cash book.

PORT OF BOSTON AUTHORITY

REPORT No. 2675

Travel Expense Accounts: The past two audit reports have discussed, in more or less detail, expenditures made by the Port Authority which had not been properly vouched and also many items of questionable propriety. It was noted in these reports that the Port Authority had been given wide latitude by statute, which ostensibly covered these expenditures. In this respect it was suggested in the previous report:

"....the Commissioners exercise more restraint and install more thorough supervision over expenditures particularly in the matter of travel vouchers."

As no improvement in this matter was noted, attention is again directed to it.

Authorization for and Status of Bond Issues: Section 10 of Chapter 619 of the Acts of 1945 provides in part as follows:

"Section 10. Subject to the conditions herein imposed for the purpose of purchasing sites and pier locations and for the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, inserted therein by section three of this act, the state treasurer shall, upon request of the Authority and with approval of the governor and council, issue and sell at public or private sale bonds of the commonwealth, registered or with interest coupons attached, as he may deem best, to an amount to be specified by the Authority from time to time, but not exceeding, in the aggregate, the sum of fifteen million dollars....."

Status of bonds authorized under this statute follows:

Amount authorized			\$15,000,000 00
Bonds authorized:			
Hoosac Pier and Grain Elevator Property:			
Bonds Issued	\$5,000,000 00		
Improved Pier and Grain Facilities, East Boston:			
Bonds Issued	3,500,000 00	\$8,500,000 00	
Bonds Authorized - Not Issued:			
Boston and Albany Piers:			
East Boston	\$4,000,000 00		
Castle Island	1,200,000 00		
Transferred to Boston Harbor Terminal Facilities Loan Fund	1,300,000 00	6,500,000 00	<u>\$15,000,000 00</u>

Expenditures and Encumbrances under Bond Issue: The State Treasurer in compliance with requests from the Authority has issued bonds totaling \$5,000,000.00 to June 30, 1949 in order to carry on the work at the Hoosac Pier and Grain Elevator. The following is a summary of expenditures and encumbrances to June 30, 1949 under these items:

Amount authorized and bonds issued	\$5,000,000 00
Expenditures and encumbrances	<u>4,071,622 54</u>
	<u>\$928,377 46</u>

	Payments	Encumbrances	Total
Payments and Liabilities:			
Cost of sub-structure	\$ 936,290 33	\$ 620,814 67	\$1,557,105 00
Purchase of Hoosac Pier	1,042,176 00	-	1,042,176 00
Excavating, dredging and filling	368,163 34	-	368,163 34
Purchase of grain elevator	100,000 00	-	100,000 00
Engineering agreement	90,596 97	27,403 03	118,000 00
Personal services	85,277 19	-	85,277 19
Expenses	24,479 05	222 10	24,701 15
Demolition grain elevator and buildings	18,700 00	-	18,700 00
Test borings	2,957 86	-	2,957 86
Battery charging building	20,021 22	45,490 78	65,512 00
Repairs to elevators	295 38	394 62	690 00
Testing materials at Hoosac	2,247 13	3,752 87	6,000 00
Machinery for handling grain	10,275 00	4,725 00	15,000 00
Construction of super-structure	-	667,340 00	667,340 00
	<u>\$2,701,479 47</u>	<u>\$1,370,143 07</u>	<u>\$4,071,622 54</u>

Hoosac Pier: Chapter 619 of the Acts of 1945 also places the following limitations upon expenditures from funds provided by borrowing:

".....no construction, to be paid for from the proceeds of the bond issue hereby authorized, shall be done unless the Authority shall have first executed a written contract, approved by the governor, with a responsible party providing for the lease of said property, the minimum requirements of which shall be at a rate sufficient to amortize sixty per cent of the actual cost to the commonwealth of the facilities included in the lease, over a period not to exceed twenty years, which contract may provide that at the expiration of the term of the lease it may, at the option of the lessee, be renewed for a further period of twenty years and provided, further, that no expenditure or commitment from the proceeds of said bond issue in excess of five million dollars shall be made without further authorization by the general court therefor."

In this connection the previous audit report stated:

"The Legislature in this section required a twenty-year lease of planned new construction before such construction is initiated. If such provisions are met by the Port Authority, recovery of at least sixty per cent of public funds so expended is assured, and the section further acts as a curb on unrestrained and non-essential construction.

"The Port Authority, ignoring the provisions of this section, has initiated construction of a new pier to replace the Hoosac Pier and has leased the new pier to a railroad for only five years.

"Evidently there existed some doubt in the mind of the Port Authority as to the legality of this procedure, since on February 8, 1946, the Chairman of the Authority asked the Attorney General the following question:

'May construction to be paid for from the proceeds of a bond issue authorized by Section 10 of Chapter 619 of the Acts of 1945 entitled "An Act abolishing the Boston Port Authority, and establishing a Port of Boston Authority and defining its powers and

duties", be done if the Port of Boston Authority shall have first executed a written contract, approved by the Governor, with a responsible party providing for the lease of said property for a term -- for example, five years -- shorter than twenty years and shorter than the maximum term of said bonds -- for example, fifteen years -- and at a rate sufficient to amortize sixty per cent of the actual cost to the Commonwealth, of the facilities included in said lease, over a period not exceeding twenty years?'

"In his reply dated February 21, 1946, the Attorney General did not settle the question, but stated in part:

'.....While I am of opinion that said Chapter 619 does not require a lease entered into before beginning construction of a port improvement to be self-liquidating during its term, the possibility cannot be ignored that a different construction might be reached in the event of litigation.'

"Despite this ambiguous reply, the Port Authority on the strength of a five-year lease has committed public funds to the erection of the pier, and the situation today is further complicated by the fact that the lease signed with the railroad on April 17, 1947, states in part:

'.....In no event shall the Commonwealth be required to expend more than the sum of two million, six hundred thousand dollars for the cost of the pier facilities.'

In this connection attention is called to the fact that apparently the cost of the construction of the pier and its facilities was greater than originally estimated, and a new lease was entered into in May 1949, reading, in part, as follows:

"Yielding and paying during said term a rental equal to three per cent of the actual cost of the pier facilities to the Commonwealth as that term is used in Section 10 of Chapter 619 of the Acts of 1945, provided that such actual cost which shall include the cost of acquiring the land shall in no event exceed four million four hundred eight thousand two hundred eighty nine dollars (\$4,408,289.00)....."

Hoosac Pier Grain Elevator Property: This property was purchased from the Boston and Maine Railroad for the sum of \$100,000.00 in accordance with an agreement dated April 1948. The cost of additions and alterations totaled \$425,000.00, making an aggregate cost of \$525,000.00. A lease was executed with the Boston and Maine Railroad for rental of the elevator upon completion, at a rental equal to 3% of the cost of the elevator and additions and alterations for a term of twenty years.

Purchase of Boston and Albany Piers - East Boston: Chapter 545 of the Acts of 1948 states in part as follows:

"Subject to the conditions imposed by section ten of chapter six hundred and nineteen of the acts of nineteen hundred and forty-five, the Port of Boston Authority is hereby authorized, for the purpose of purchasing sites and pier locations and the construction thereon of pier facilities under authority of chapter ninety-one A of the General Laws, to make commitments and expenditures, without further authorization by the general court therefor, from the proceeds of the bond issue provided for by said section ten up to but not in excess of the amount of seven million five hundred thousand dollars, such amount to be in addition to the amount heretofore authorized to be expended from said proceeds."

Following is a statement of disbursements and encumbrances under this authorization:

Amount authorized	\$7,500,000 00
Bonds not issued	<u>4,000,000 00</u>
Bonds issued	<u>\$3,500,000 00</u>

(Continued)	Payments	Encumbrances	Total
Payments and liabilities:			
Land	\$3,000,000 00	-	\$3,000,000 00
Architects and appraisers	146 00	\$654 00	800 00
	<u>\$3,000,146 00</u>	<u>\$654 00</u>	<u>\$3,000,800 00</u>
Balance available			<u>\$499,200 00</u>

Actual construction of this project has not yet begun.

A lease for the East Boston Pier facilities dated July 1, 1949 was properly approved by the Governor and Council and bears the seal of the Secretary of the Commonwealth. The purchase price of the facilities was \$3,000,000.00. The facilities consist of four piers and one open pier. Pier #2 was demolished, hence the estimated value of the land under or about the demolished pier was deducted from the purchase price upon which the lessee pays 3% annual rental, on the interim lease, computed as follows:

Cost of land	\$3,000,000 00
Less:	
Value of Pier #2	<u>175,000 00</u>
Net Cost	\$2,825,000 00 @ 3% equals \$84,750 00 annually.

The remaining piers are apparently in good condition and will probably require no major repairs. They are presently in use.

At the expiration of this interim lease - when the Port Authority has completed the new pier - a lease for twenty years (with option for renewal) will be in force. This lease provides for annual rental of 3% of the cost of construction, based on the following tentative figures:

Purchase price	\$3,000,000 00
Value of Commonwealth lands	145,000 00
Estimated maximum cost	<u>4,500,000 00</u>
	<u>\$7,645,000 00</u>

Mystic Pier Lease: The purchase price of this facility, which was approved by the Governor and Council on September 1, 1948, was \$1,345,000.00.

An interim lease was granted to the lessee, the Boston and Maine Railroad, on October 23, 1948. There is no rental paid by the lessee during this interim period. The following excerpt from a memorandum to the Acting Director of the Port Authority from the Chief Engineer, dated February 16, 1950, follows:

"In lieu of a rental on the Mystic property acquired for the proposed pier facilities during the interim period between acquisition and construction, the lessee agreed to maintain and operate the grain elevator facilities for a period of approximately two years. Although the estimated cost of \$100,000.00 for the annual maintenance of the grain facilities appeared high, there was no definite way of determining the cost. In my opinion, the cost would be nearer \$80,000.00.

"There is apparently no question that the grain facilities were in very bad shape. It is the intention of the Authority, after completion of the Hoosac facilities, to demolish and remove the Mystic grain elevator facilities because they are in such poor condition.

"It was decided by the Port Commissioners in July, 1948 that it would be to the best interest of the Commonwealth to have the lessee maintain the grain facilities in lieu of paying rent for the pier. It appeared that the benefits to the Commonwealth would be far greater by this arrangement."

A twenty-year lease to begin when the activity is completed was approved on December 8, 1948.

Terminal Operators, Incorporated: On November 1, 1946, the Port Authority granted a permit to Terminal Operators, Inc., to operate the Castle Island Terminal

for the handling of commercial cargoes.

Until June 30, 1948, under the terms of the lease the Port Authority was to receive 75% of the net income from operations of the terminal as rental.

A contract dated July 1, 1948 with this corporation provides as follows:

To pay the Port Authorities \$1,500.00 per month (base payments) and, in addition to make payments after making deductions hereinafter provided for equal to the percentages of net income, as herein-after defined, of the licensee from the use and operation of the premises for each full year in force

53% of the amount of such net income not in excess of \$60,000.00

58% of the amount in excess of \$60,000.00 but not in excess of \$70,000.00

65% of the amount in excess of \$70,000.00 but not in excess of \$80,000.00

75% of the amount in excess of \$80,000.00

Under this agreement the following is a computation of the income accrued to the Port Authority to June 30, 1949:

Total revenue by Corporation	\$156,795 57
Less:	
Expenses	<u>90,721 27</u>
Net Income	<u>\$66,074 30</u>
53% of \$60,000.00	\$31,800 00
58% of \$6,074.30	<u>3,523 09</u>
Amount due the Authority	<u>\$35,323 09</u>
Payments in 1949	\$38,815 57
Less:	
Paid a/c 1948	<u>20,815 57</u>
Paid a/c 1949	<u>\$18,000 00</u>
Due a/c 1949	\$35,323 09
Paid a/c 1949	<u>18,000 00</u>
Balance due June 30, 1949	<u>\$17,323 09</u>

Old Licenses and Permits: The Port of Boston Authority "inherited" the balance of licenses and permits which had been issued by the Department of Public Works, Division of Waterways. Many of these are quite old, and while some have been paid and others sent to the Attorney General for disposition, some old accounts still remain open on the accounts receivable. This matter was discussed with the Real Estate Department of the Authority, and it now appears that these accounts will be cleared up in the near future by billing all of them and referring the unpaid ones to the Attorney General for disposition.

Accounts Receivable: Reference was made in the previous audit report to an unpaid account with the United States Navy of \$57,954.15. During the period of this audit, this amount has been collected.

Attention was also called in that audit report to an open account against the New York, New Haven and Hartford Railroad Company, covering charges for trackage in the amount of \$22,283.15. This bill was also paid, together with trackage charges to November 1948, totaling \$24,954.42. On the date of audit there remained due from the Railroad covering current trackage charges, the amount of \$5,382.98.

Tidewater Displacement Charges: Charges for tidewater displacement are based on a maximum of \$.37 1/2 per cubic yard. This charge was based on the cost of this dredging as of several years ago. It is understood that this present cost is approximately \$.70 per yard. It is suggested that consideration be given to increasing this charge to one more nearly commensurate with current dredging costs.

Boston Harbor Terminal Facilities Loan Fund: This fund was established by Chapter 714 of the Acts of 1941 and was transferred to the Port of Boston Authority by Chapter 619 of the Acts of 1945. The following is a summary of activities in this fund as of June 30, 1949:

Original authorization	\$4,700,000 00
Transferred from Boston Harbor Facilities Loan Fund	<u>1,300,000 00</u>
Total authorization	\$6,000,000 00
Total authorization	\$6,000,000 00
Bonds not issued	<u>4,400,000 00</u>
Bonds issued and allotted	1,600,000 00
Expenditures and liabilities	<u>1,502,135 04</u>
Balance available	<u>\$97,864 96</u>

Expenditures and liabilities:	Expenditures	Liabilities	Total
Submarine inspections	\$ 3,378 75	\$ 1,131 25	\$ 4,510 00
Test borings	3,234 49	826 86	4,061 35
Driving test piles	4,835 65	853 35	5,689 00
Land	1,345,000 00	-	1,345,000 00
Architects and appraisers	21,471 10	109,106 40	130,577 50
Salaries	10,591 13	-	10,591 13
Expenses	1,570 06	136 00	1,706 06
	<u>\$1,390,081 18</u>	<u>\$112,053 86</u>	<u>\$1,502,135 04</u>

Sale of Land to United States Government: While the Division of Waterways was the controlling agency, land adjoining the Fore River Shipyards in Quincy was taken over by the Federal Government. This land had formerly been leased by the Commonwealth to an individual. After several years of litigation the case was settled and a check in the amount of \$85,000.00 was received by the Port Authority in full settlement of all claims arising from this matter.

Leases and Permits: It was noted that the policy of the Port Authority has apparently changed in regard to rentals of property under its jurisdiction.

Hitherto, many of the parcels were rented under permits. The present policy is to let these properties out under leases of five years or longer.

The leases also provide for the lessee to pay local real estate taxes.

There were three permits for parcels of land which appeared to be proper subjects for leases rather than permits. They were discussed with officials of the Authority who indicated that these parcels are quite valuable. They further indicated that they did not wish to be bound by a long term lease. There is apparently a likelihood that substantial facilities may be planned for these properties by others, in which event the Authority would be in a better position than if these properties were presently under leases.

The properties involved are presently rented by:

Contract Haulage, Inc.
R. S. Brine Transportation Company
Denman Transportation Company
T. F. Kearney

Property Owned by the Port Authority: The following schedule prepared by the Engineering Division shows the property now owned by the Port of Boston Authority on February 9, 1950:

BUILDINGS		AREA IN SQUARE FEET
SOUTH BOSTON	VALUATIONS	
Pile Pier (Grasselli)	\$ 22,500 00	15,000
Heating Plant and Chimney	41,000 00	4,840
Bosun's Locker	1,800 00	240
Shed Under Viaduct	22,000 00	6,250
E Street Storehouse	139,000 00	178,000
E Street Storehouse (Platforms)	23,500 00	18,000
Boilerhouse	6,500 00	2,500
Grasselli Building	25,000 00	15,000

(Continued)

<u>SOUTH BOSTON</u>	<u>VALUATIONS</u>	<u>SQUARE FEET</u>
Commonwealth Pier No. 5:		
Building	\$3,060,000 00	421,200
Pier Solid Portion	1,207,000 00	345,000
Pier & Platform	438,000 00	135,000
Commonwealth Pier No. 6:		
Pier Solid	720,000 00	360,000

EAST BOSTON PIERS

Commonwealth Pier No. 1:		
Pile Pier & Buildings	203,975 00	40,975
New York Central R. R.		
Buildings, Tracks, Piers, Transit Sheds, Warehouses, Grain Elevator, Conveyor Gallery, Machinery, Boiler House, etc.	1,600,000 00	NO ESTIMATE

CHARLESTOWN

Hoosac Piers:	
Grain Elevator (Building)	100,000 00
Mystic	
(No value on Buildings)	-

TOTAL	<u>\$7,610,275 00</u>
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Total Unoccupied office space in Commonwealth Pier No. 5
Building - 7,403 square feet.

LOCATION	VALUATION	LAND	OCCUPIED	UNOCCUPIED
		AREA IN SQ. FT.		
SOUTH BOSTON:				
Pier No. 5:				
Docks	924,000 00	420,000	420,000	-
Pier No. 6:				
Docks	593,250 00	660,000	660,000	-
Land	230,000 00	177,100	177,100	-
Railroad Yard				
Flats:				
Land	9,104,900 00	3,200,530	2,330,117	870,413
Flats	66,000 00	355,728	355,728	-
Castle Island:				
Land	2,700,000 00	3,332,340	3,332,340	-
South Bay:				
Land	209,900 00	262,366	69,734	192,632
Flats	9,700 00	64,970	-	64,970
Docks	3,600 00	36,000	30,016	5,984

EAST BOSTON:

Pier No. 1:				
Pier	20,487 50	40,795	Under lease)	-
Land	58,340 00	58,340)	-
Docks	16,578 50	33,157)	-
N. Y. C.				
R. R. :				
Docks)	1,545,000 00	1,008,209	Under lease)	-

(Continued)

Land)	-	507,736	Under Lease)	-
Pile Pier)	-	562,858)	-

CHARLESTOWN:

Hoosac Piers:

Pile Pier-Land, Docks	\$ 1,161,900 00	663,415	Under Lease	-
Mystic Piers, Land, Docks	<u>1,345,000 00</u>	-	Under Lease	-
TOTAL	<u>\$17,988,656 00</u>			

PUBLIC BEQUEST COMMISSION

REPORT No. 2682

It is noted that the total amount accumulated in this fund since September 1, 1929 is only \$3,601.81. Since no payments may be made from the fund until the principal amounts to \$500,000.00, it is apparent that unless contributions are increased to a far greater extent than those which have been received to date, there is little likelihood that the purpose for which the fund was created will ever be carried out.

SOLDIERS' HOME IN CHELSEA

REPORT No. 2639

Appropriations: State appropriations made to this hospital are derived from the Veterans' Service Fund. Under Public Law 531 of the 80th Congress \$500.00 per patient per year is now available to the institution from the Federal Government. After June 30, 1951, however, only \$300.00 per patient per year will be made available to the institution by the Federal Government.

In prior years the money received from the Federal Government was added to the Appropriation Account and allotted in the regular routine manner. Beginning with the 1948-1949 fiscal year the Commonwealth made the appropriation for the hospital, which represented the total amount available to the hospital for the fiscal year. The money received from the Federal Government was then recorded as income to the Veterans' Service Fund and was not made available to this institution in kind.

Bonding Employees: It was noted that a head clerk who is the acting treasurer of this institution is the only employee bonded. It is recommended that all employees who handle cash be bonded.

Inventory Adjustments: It was noted that inventory adjustments are being made through the issues column on the stock ledger, increasing the issues for shortages and decreasing the issues for overages. It is recommended that the procedure of handling adjustments as authorized in the Accounting Manual issued by the Comptroller's Bureau be followed.

Accounts Receivable Control Account: In making an analysis of the Accounts Receivable Control account it was noted that the income received from the Federal Government was not recorded in this account. It is recommended that all income be recorded in the Account Receivable Control account as required by the Comptroller's Bureau.

Canteen: The canteen at this institution is privately owned and operated. No rent is paid for the space occupied by this concession and no audit was made of the records. In this connection it was noted that a monthly donation is being made by the canteen operator to the "Donation Account" of the institution.

Three civilians and one member of the home are employed by the canteen as clerks and as such receive compensation for services rendered. The merchandise is apparently sold at regular retail market prices. The canteen appears to be of considerable size. It operates a refreshment counter and has available for sale stocks of candy, tobacco, toilet articles, jewelry, etc. Checks are also cashed for the convenience of employees and members and a small fee is charged for this service. The canteen is open every day in the year. It is recommended that a complete study be made of the operation of the canteen to determine the possibility of having the canteen operated by the institution so that all profits from canteen operations may be expended for the benefit of the patients and members of the hospital. This step is immediately advisable since the new hospital contains extensive canteen facilities built at the expense of the Commonwealth. It was also noted that on August 9, 1949, the Board of Trustees ordered a survey of the canteen to be

instituted under the direction of the Commandant, however, the order does not indicate the purposes of the survey.

Legacy Fund - Income on Endowments: The General Ledger includes an account called "Income on Endowments." The balance of this account, however, represents both principal and income cash.

This account is credited with the following items:

Interest and Dividends on Securities
Receipts from Sale of Equipment Originally Purchased for this Fund
Miscellaneous Receipts

This account is also charged with the following items:

Expenditures for the Benefit of Veterans of the Soldiers' Home
Service Charges of the Old Colony Trust Company for Administering
Account
Net Loss on Sale of Securities
Accrued Interest on Purchase of Securities

It is advised that in place of this one account three separate accounts should be carried in the General Ledger as follows:

Income on Endowments
Miscellaneous Receipts and Expenses

This will obviously make for better accountability of the items presently being grouped in the one account.

Deceased Members' Funds: Included in Members' Personal Funds on the date of audit was the amount of \$250.00 representing funds of four deceased members. While the audit was in progress this amount was disbursed.

Bank Deposit of Members' Funds: On the date of the current audit there was a cash balance in the so-called "Members' Funds" of \$27,952.57, including \$360.27 represented by cash in the institution office, the balance of \$27,592.30 was on deposit in a commercial account in the National Shawmut Bank of Boston and this balance represented monies belonging to 104 individuals. This balance, of course, earns no interest. In this connection it was suggested to the institution authorities that the account be transferred to a depositor or account where interest might be earned. In this respect, the following letter was sent to the Commissioner of Administration and Finance seeking advice in this matter.

Thomas H. Buckley, Commissioner
Administration and Finance
State House
Boston, Massachusetts

Dear Sir:

In accordance with the instructions of a recent report of the Auditor of the Commonwealth, it has been recommended that the deposit funds presently held in our patients' account be placed at a bank which will insure the full deposit. It is further recommended that we select a bank which will pay an interest on the full deposit.

We have contacted the Lincoln National Bank of Chelsea and they have offered us insurance on the full amount of our deposit. Further, they offer us 1% interest on the full deposit.

I respectfully request an opinion from your Department as to the means of deposition of the interest from the patients' account. It would be virtually impossible to credit the individual accounts with the interest thus received. In view of the fact that it would be approximately \$250.00 per year, we would like to credit it to the Patients' Donation Account so that it may be used for the benefit of patients.

Yours very truly,

John L. Quigley
Commandant

jlq:mtw

Under date of October 14, 1949, the following reply was received indicating that the individuals be credited with interest actually earned in their respective balances:

COMMONWEALTH OF MASSACHUSETTS
Commission on Administration and Finance
State House
Boston 33, Mass.

October 14, 1949

Mr. John L. Quigley, Commandant
Soldiers' Home
Chelsea 50, Mass.

My dear Commandant Quigley:

In reply to your letter of October 13, I do not believe that the Commonwealth is entitled to the interest which will be received on the deposit of funds at the Lincoln National Bank and that despite the inconvenience involved the amount must be credited to the accounts of the individual patients whose funds are deposited under the general deposit of the Soldiers' Home for the account of various patients.

It is my feeling that if you discuss the matter with the Lincoln National Bank of the tabulation of the total interest due on the deposit that they will be able to subdivide that in the amounts which are originally deposited to make up the total deposit and that amount then can be credited on your books to the account of the patient for whom the money is originally deposited.

Very sincerely yours,

s/ Thomas H. Buckley

Thomas H. Buckley
Commissioner of Administration

THB/aef

The methods to be employed in making a determination of the average account balance between interest dates, would undoubtedly involve a great deal more expense than the total monies involved. Rather than proceed with this arrangement, it is suggested that the opinion of the Attorney General be obtained.

Small Donations Fund - Saving Account: On the date of audit there was a cash balance in this Small Donations Fund totaling \$30,192.99. This cash was held as follows:

Cash in Office	\$ 256 74
Cash in Banks:	
Chelsea Trust Company - Savings Account	\$29,785 76
National Shawmut Bank - Commercial Account	150 49 29,936 25
	<u>\$30,192 99</u>

It was noted that interest credited on the savings balance at the rate of 1% per annum is only credited on the first \$5,000.00 of the balance. This arrangement is in compliance with banking regulations. It is, therefore, advised that several accounts be opened in local banks with balances of approximately \$5,000.00 each so that the full amount of bank interest may be properly credited.

STATE RACING COMMISSION

REPORT No. 2649

Unclaimed Pari-Mutuel Tickets: At the date of audit, the value of unpaid pari-mutuel tickets for the 1948 year was \$68,895.80. This amount, subject to change due to tickets being redeemed at a later date will be payable to the Commonwealth early in 1950. Checks totaling \$77,677.60 were received from the various associations early in 1949 covering the unpaid pari-mutuel tickets for the racing year of 1947.

These unpaid tickets are under continuous audit by the commission's accountants until they are finally turned over to the Commonwealth.

Agricultural Purposes Fund: This fund originates in the receipts from commissions and breakage from racing at fairs and is provided for by Chapter 390 of the Acts of 1947 as amended by Chapter 319 of the Acts of 1948.

The amount of \$75,202.44 was received from fairs held in the 1949 year and has been credited to this fund.

Changes in Commission Rates: It was noted that Chapter 294 of the Acts of 1949 provides for increases in rates effective May 13, 1949, as follows:

<u>Horse Racing</u>	<u>Prior to May 13, 1949</u>	<u>After May 13, 1949</u>
1st \$700,000	3 1/2%	3 1/2%
\$700,000-800,000	4%	4 3/4%
800,000-900,000	4 1/2%	5 1/4%
900,000 and over	5%	5 3/4%
Total	1%	2%
<u>Dog Racing</u>		
1st \$75,000	3 1/2%	3 1/2%
\$75,000-110,000	5%	5%
110,000-140,000	6%	6%
140,000-250,000	7%	7%
250,000-375,000	7 1/2%	8 1/4%
375,000 and over	8%	8 3/4%
Total	1%	2%
<u>Harness Horse Racing</u>		
1st \$400,000	3 1/2%	3 1/2%
\$400,000-450,000	4%	4 3/4%
450,000-500,000	4 1/2%	5 1/4%
500,000-550,000	5%	5 3/4%
550,000-600,000	5 1/2%	6 1/4%
600,000-650,000	6%	6 3/4%
650,000 and over	6 1/2%	7 1/4%
Total	1%	2%

STATE SUPERINTENDENT OF BUILDINGS

REPORT No. 2614

Assignment of Rooms in State House and Elsewhere: Section 10 of Chapter 8 of the Tercentenary Edition of the General Laws, as amended by Section 4 of Chapter 249 of the Acts of 1938, and Chapter 440 of the Acts of 1943, referring to the Superintendent of Buildings, states:

"He shall, under the supervision of the governor and council and with the approval of the commission on administration and finance, assign the rooms in the state house and rooms elsewhere used by the commonwealth, and may determine the occupancy thereof in such manner as the public service may require:"

In conformance with the foregoing statute, certain private service enterprises have been allotted rent-free space in the State House.

SECRETARY OF THE COMMONWEALTH

General Department

REPORT No. 2643

General Court Manuals: Section 11 of Chapter 5 of the Tercentenary Edition of the General Laws, as amended, provides for the printing and distribution of a manual for the General Court. Under the statute not more than 10,500 copies are to be printed in every odd-numbered year and any balance remaining after distribution to certain specified personnel, may be sold by the State Secretary to the general public at cost.

The present practice is for the clerk in charge of the Public Document Division to estimate the number of manuals which will not be distributed and record that number in the stock ledger to be offered for sale at \$1.25 each. This estimate may be revised from time to time as a larger number of free copies may be requested by those persons entitled to them than was at first anticipated. The funds derived from the sale of the manuals to the general public are turned over to the State Treasurer. However, since there is no

time limit placed upon the free distribution, the number available for sale cannot be definitely known, nor can the number of manuals sold be verified.

It is therefore recommended that all printed copies be taken into stock and recorded as such in the stock ledger which provides for both free issues and sold copies.

Stock Ledger in the Public Document Division: It was noted that no entry is made in the stock ledger for charge sales and shipments on consignment until the cash is actually received. This method hampers the stock ledger control of inventories by preventing stock ledger balances from being in agreement at all times with the actual stock on hand.

It is also recommended that all sales and consignment shipments be recorded in the stock ledger at the time the sale or shipment is made.

General Cash Book

Recording of Current and Prior Year Refunds: It was noted that the previous audit report recommended that refunds of receipts, and current and prior year refunds, be separated. This suggestion has been followed. It is further suggested, however, that the current and prior year refunds be recorded in the regular chronological order in the cash book. It is also suggested that columns be provided for the recording of these refunds.

Cancellation of Refunds on Account of Income: It was noted that when a refund is canceled the amount is not recorded in the regular section of the cash book. It is recommended that such canceled refunds be recorded chronologically as the transaction occurs.

Archives Division

Cash Book: It was noted that the cash book of this division does not have any reference to sales book numbers. This omission is contrary to good accounting procedure. It is recommended that the sales book numbers be inserted on the cash book in a column so designated.

Accounts Receivable: It was also noted that there is no adequate and complete record of Accounts Receivable in this division. In order to get a listing of Accounts Receivable under the present system a detailed verification of all the sales slips issued is necessary. It is suggested that an Accounts Receivable ledger be installed.

Recording of Bad Checks: The previous audit report commented on the method of recording these items and suggested that the routine be corrected. In this connection it was noted that these bad checks are now being recorded in a satisfactory manner.

Vital Statistics: During the course of the current audit, it was noted that certain non-state employees, located within the State House were engaged in the preparation of vital statistics reports. The reports, prepared from State records, under a private contract between the Secretary of State and the Federal Government National Office of Vital Statistics are paid for by the latter agency at rates specified in the contract. This procedure has been maintained for several years. However, financial records covering these transactions have not been included in the accounts of the Department of the Secretary and were not available for the period prior to March 16, 1949. From that date to October 31, 1949 the total payments received from the National Office of Vital Statistics have amounted to \$3,739.73, from which the expenses, including personal services and taxes in the amount of \$2,832.39 had been disbursed. There was a balance of \$907.34 in this fund on October 31, 1949 and \$418.40 due from the Federal Government in Accounts Receivable.

It is felt that the financial records of these operations should be included in the records of the Department of the Secretary of State and it is recommended that the Comptroller's Bureau be contacted to set up such accounts.

General: In the Department of the Secretary of State, there are six divisions. All income received by the various divisions is turned over to the general cashier in the Corporation Division who deposits the income with the State Treasurer on a regular receipts voucher and records it in the general cash book. It was found, however, that the general cash book does not specify in sufficient detail the type of income received by the various divisions, and that the same account number is sometimes used for different kinds of revenue.

It is again suggested that each division deposit with the State Treasurer all income received on a regular receipts voucher and submit a copy of it to the general cashier, who in turn will record it in the general cash book.

TREASURER AND RECEIVER-GENERAL

General Department

REPORT No. 2673

Cash and Securities: The cash balance as per the books and records of the Treasurer and Receiver-General as of the close of business January 4, 1950 was \$31,994,239.55, and the book value of securities amounted to \$228,014,573.27, which included \$103,454,658.59 in the Unemployment Compensation Fund, in Washington, D. C.

Bonus Division: There was due the Commonwealth on January 4, 1950, on account of bonus overpayments, the sum of \$6,534.00, of which \$1,608.00 has been referred to the Attorney General for disposition. It was noted that the present card file system as maintained by this division is apparently inadequate because there appears to be no controlling account, nor are the cards numbered in sequence. This makes it impossible to determine if any have been misplaced. A bound record would prove more desirable, and it is suggested that one be installed.

Bonus Overpayments - Accounts with the Attorney-General: Several accounts of overpayments of bonuses were indicated as having been sent to the Attorney-General for disposition. An attempt was made to check both the accounts and amounts at the Office of the Attorney-General, but they could not be located or identified in that department.

It is suggested that a new and complete list of all such accounts, with the amounts due, be sent to the Attorney-General.

Active Banks - Reconciliation of Bank Balances: The active bank accounts had not been reconciled by the department for three months prior to the date of audit. In this connection the last of the bank statements, reconciled through December 31, 1949, was not received for audit purposes until March 15, 1950.

It is suggested that bank reconciliations should be kept current, and it is also suggested that each adjustment shown on any reconciliation statement should show complete and correct explanations.

Cash Balance - Daily Statement: The daily statement of cash prepared when the cash is balanced includes bank balances which are in agreement with the bank registers, or top sheets, which show all changes affecting the bank balances. Many of the charges and credits affecting the bank balances as of January 4, 1950, were not made until several days after that date.

It is suggested that advice of changes, deposits, withdrawals, and adjustments, when received daily from the proper sources, should be entered promptly in the so-called "top-sheets."

Checks Held in Vault and in Main Office: A Number of uncashed pay roll checks were found in the office vault. The checks were not canceled and had a total value of \$8,259.26. They were dated between October 8, 1943 and September 1, 1949, and were made payable to an employee of the Metropolitan District Commission, who is now retired.

A number of uncashed checks, which were also not canceled, returned as unclaimed or undelivered by postal authorities were also being held in the same vault.

In the main office there were also a number of uncashed checks, not canceled, some two years old. It was understood that the checks were drawn to persons who, at the time when the checks were originally drawn, were on regular departmental pay rolls or on retirement.

It is suggested that checks such as the above-mentioned should be canceled, payment stopped, and the proceeds credited to the proper accounts. If it is necessary to hold any checks until the proper charges are determined, a file with the necessary information could be maintained in the main office. The checks should be kept in the vault under proper control and custody.

Public Utility Bonds: In this connection, the previous audit stated:

"Chapter 658 of the Acts of 1945 provides authority for the Investment Committee to invest funds of the State Employees' and Teachers' Retirement Funds in bonds which are legal investments for savings banks. For-merly, these funds could only be invested in government bonds.

"During the course of this audit a total of \$4,250,000.00 of Public Utility bonds were purchased. Of this amount, only \$1,500,000.00 was on hand, and the balance of \$2,750,000.00, although purchased almost one

year ago, still in temporary form, are being held in safekeeping by the Bankers Trust Company of New York, for the account of the Commonwealth. It is understood that this is being done to facilitate the exchange of these temporary bonds for fully registered bonds when they are available. These bonds are as follows:

- \$250,000 3 1/8% Mountain State Tel. & Tel. Co. bought April 31, 1948, due April 1, 1978.
- 500,000 3% New England Power Co. 1st mortgage Series B, bought August 2, 1948, due July 1, 1978.
- 500,000 New Jersey Bell Telephone Co. debentures 3 1/8%, bought July 22, 1948, due July 15, 1978.
- 500,000 3 1/4% Pacific Telephone and Telegraph Co. bought March 23, 1948, due March 1, 1978.
- 500,000 2 7/8% Philadelphia Electric Co. 1st and Refunding Mortgage, bought March 23, 1948, due February 1, 1978.
- 500,000 Southwestern Bell Telephone Co. debentures 3 1/8%, bought May 11, 1948, due May 1, 1983."

In this connection, it was noted that the bonds listed were received by the State Treasurer since the date of the previous audit and were among the securities listed and counted on January 4, 1950 at the time of the current audit.

Securities Ledger: On the date of the audit the securities ledger consisted of two groups of loose leaf ledger sheets, one for the recording of the Trust Fund Securities, and the other for the recording of the Trust Deposit Securities.

It is suggested that the Comptroller's Bureau be contacted relative to the installation of a modern ledger for recording securities.

Securities - Verification: Securities purchased prior to January 4, 1950 were not found to be on hand when the securities were verified in connection with this examination, as follows:

- \$171,000.00 U. S. Treasury Bonds, Series G, 2 1/2%, 12-1-61, received and verified on January 10, 1950.
- 454,000.00 City of Boston Bonds 3%, 6-1-94, received and verified on January 13, 1950.

Included in the balance of securities on hand at the audit date was an amount of \$300.00, represented by U. S. 4th Liberty Loan bonds having a maturity date of October 15, 1938. The value of these bonds is credited to the Inheritance Tax Deposit Trust Fund, and it was explained that they are being held because the beneficiary is unknown.

A \$10,000.00 U. S. Treasury 2% bond of 12-15-55, received from the Ford Motor Company as a Trust Deposit, was held in the vault of the State Treasurer, but was not recorded because the necessary papers had not been approved as of January 4, 1950.

\$20,000.00 Louisiana Port Commission 5% bonds were not on hand on the date of this audit. A letter on file at the First National Bank of Boston stated that the maturity date of the bonds were being changed, and that the bonds had been returned for that purpose.

Included with Trust Deposit securities in the vault of the State Treasurer as of January 4, 1950, was a \$100,000.00 U. S. Treasury bond, 2 1/4%, 6-15-56. According to a departmental official, this bond was received from the Merchant's Mutual Casualty Company to replace three U. S. Treasury bonds totaling \$100,000.00 which, at that time, were still included with the State Treasurer's securities in the First National Bank of Boston, as follows:

- \$25,000.00 U. S. Treasury 2 7/8%, 1955-60
- 50,000.00 U. S. Treasury 2 1/2%, 1964-69
- 25,000.00 U. S. Treasury 2 1/2%, 1967-72

Bonds with maturity dates of February 1, 1950, and bond interest coupons of the same date were not found when the securities were verified. They were determined to be in the custody of the First National Bank of Boston on January 4, 1950, and verification was established through correspondence with that bank.

A \$5,000.00 City of Everett 1 1/4% Reg. Bond due August 1, 1949 was among the securities counted on the date of audit. The bond was listed under Trust Deposits as of

January 4, 1950, and was deposited by the Boston Casualty Company.

Coupon Bond Interest Paid: Coupon interest payments were reconciled to June 30, 1949. Coupons had not been sorted beyond that date by the State Treasurer's department, hence verification would have entailed a prohibitive amount of time.

It was noted that a series of fifty bond interest coupons paid had not been canceled by the department prior to the time of examination. It is suggested that all bond interest coupons paid be canceled immediately upon receipt of such coupons by the State Treasurer's department.

One coupon for \$8.50 was recorded as a prepaid item on June 30, 1949. The coupon was dated October 1, 1949, and had been paid in error October 1, 1948, one year previous.

Certain paid bond interest coupons of the Veterans' Services and Logan Airport Improvement Loans could not be located at the time of audit. Evidence of payment was established, however.

The outstanding bond interest coupons due and unpaid as per the records totaled \$47,617.30 as of June 30, 1949.

Weekly Pay Rolls: In this connection the previous audit report stated:

"Chapter 29 of the General Laws, as most recently amended by Chapter 501 of the Acts of 1948, provides for weekly payment of salaries of less than \$3,000.00 a year. The effective date of this Act has twice been extended, and as it now stands takes effect July 1, 1949. Legislation to repeal this present Act has been filed by the Commissioner on Administration with the current General Court."

In this connection it was noted that Chapter 29 of the General Laws was amended by Chapter 580, Acts of 1946, providing for weekly payment of salaries of less than \$3,000.00 per year. The effective date of this act was extended by Chapter 527, Acts of 1947 and by Chapter 501 of the Acts of 1948. Chapter 386 of the Acts of 1949 which became effective June 7, 1949, amended Chapter 29 of the General Laws and provided for payment of salaries payable by the Commonwealth on the first day of each month and for weekly advances on account of salaries under such regulations as the State Treasurer may prescribe, not exceeding the proportion of salary due.

Salary Advances: On January 4, 1950, there was in outstanding salary advances \$42,051.91. On March 8, 1950, this amount had been reduced to \$4,150.99 and it was anticipated at that time that the balance would be cleared entirely with the March pay roll.

It is obvious from the foregoing that a substantial amount of cash is paid during each month on account of employees who have not been cleared through a pay roll. At times there have been accumulations of advances for several months, when payment is finally authorized. There have been several instances where small balances have never been cleared. It has been the practice to pay these balances out of the withholding tax balance.

Because there is no question that the employees should be paid on time, it would appear that some adjustment of the present method of handling these items is necessary. The present routine creates a great deal of extra effort and work in the bookkeeping section.

Pay Roll Loss Reimbursed: There was a pay roll loss of \$12,550.00 in the robbery of Brink's Incorporated on January 17, 1950. The loss was reimbursed by check on January 19, 1950. A copy of the Receipt and Release in this matter follows:

RECEIPT AND RELEASE

"In consideration of the payment to the undersigned by Brink's Incorporated of the sum of the sum of:
for the loss of the below described property as the result --- Twelve thousand five hundred and fifty no/100, (\$12,550.00) --- on January 17, 1950.

We Hereby Release the said Brink's, Incorporated and its Insurers, Commercial Union Assurance Company Limited, of and from all claims, demands and liabilities whatsoever by reason of such loss; and we hereby transfer and assign all our right title and interest in such property to said Brink's Incorporated.

We represent that we are the sole and proper parties to receive such payment and will cooperate in any reasonable manner toward the recovery of said property.

Dated January 19, 1950

By
Property Covered by above
Receipt and Release

Pay roll of \$12,550.00
for Delivery to Division of Employment Security"

Metropolitan South Sewerage System Loan Fund, Sinking Fund Surplus: It was again noted that there was still a surplus of \$398,341.40 in the South Sewerage System Loan Sinking Fund Account. The bonds were paid January 1, 1946, and question was again raised as to the disposition of the surplus. It was understood from an official in the Treasurer's office that this is a matter for the Legislature to determine. To date, this determination has apparently not been made.

Veterans' Housing: Under existing veterans' housing statutes the Commonwealth has made substantial financial commitments, and these obligations are to be met from the Veterans' Services Fund.

Under Chapter 372 of the Acts of 1946, financial assistance is limited to a 10% capital grant, based on the total development cost of the housing project. The 10% capital grant is to be given as a subsidy, payable at the rate of 2% per annum for a period of five years. As of June 30, 1949, the Commonwealth's obligation under this chapter was estimated at about \$2,000,000.00. The Comptroller's records indicate that \$71,900.00 was encumbered in the 1949 fiscal year and of this total, \$21,278.80 had been paid in 1950. A total of \$500,000.00 was appropriated for the 1950 fiscal year.

Under Chapter 200 of the Acts of 1948, the Commonwealth is committed to a \$200,000,000.00 contingent liability, as it guarantees the payment of all notes, bonds and interest of local housing authorities. It further provides for a subsidy of 2 1/2% on the cost of the projects to be used by the municipalities for the payment of interest on, and principal of, notes and bonds of the Housing Authority. Contributions on account of subsidies under this chapter are not to exceed \$5,000,000.00 in any one year. For the maximum period of forty years, subsidies alone might, therefore, amount to a total of \$200,000,000.00.

As of December 1, 1949, the amount of \$85,097,000.00 was furnished to the State Treasurer and Receiver-General by the State Housing Board representing the amount of City and Town Housing Authority notes guaranteed by the Commonwealth under Chapter 200 of the Acts of 1946.

This amount obviously represents a contingent liability of the Commonwealth as of that date.

Chapter 307, Acts of 1949, appropriated \$1,300,000.00 for reimbursement to cities and towns as provided by said Chapter 200 of the fiscal year ended June 30, 1950.

The audit report of the State Housing Board issued by this department on July 11, 1949, in referring to financing arrangements made by existing statutes stated as follows:

"Financing: Although bonds issued for construction of housing units have the advantage of the financial backing of the Commonwealth, each local housing authority will issue its own bonds. It is anticipated that the interest rates on these issues will vary, despite the common State guarantee, and that the rate will be higher than the rate of interest paid on regular State bonds. This will place an additional burden upon the entire program, and it is recommended that the chairman seek amendment to the present statute to provide that all bond issues shall be made in the name of the Commonwealth."

The recommendation is again urged.

Veterans' Services Fund: Schedule No. XII, included in this report, presents a detailed statement of receipts and disbursements in the Veterans' Services Fund.

Income to this fund is derived from --

- | | | |
|----|-------------------------|---|
| I | Cigarette Tax | - provided by Section 9 of Chapter 731 of the Acts of 1945. This tax has been set up for an indefinite period. |
| II | Alcoholic Beverages Tax | - provided by Section 11 of Chapter 731 of the Acts of 1945. This tax has been set up for an indefinite period. |

III Business Corporation Tax and Surtax

- provided by Section 10 of Chapter 731 of the Acts of 1945, as amended by Section 10A of Chapter 581 of the Acts of 1946, as further amended by Chapters 503 and 574 of the Acts of 1948 and Chapter 674 of the Acts of 1949.

In addition, Section 8 of Chapter 669 of the Acts of 1948 provides in part as follows:

"All income, including federal subventions and grants, received by the Commonwealth from or on account of veterans in payment for veterans' services, shall be credited to the Veterans' Services Fund."
(The Veterans' services mentioned in the above Act are those which are paid for from appropriations made from the Veterans' Services Fund.)

MASSACHUSETTS PUBLIC BUILDINGS COMMISSION

REPORT No. 2627

Bookkeeping: As noted in the previous audit report, there was no general ledger in use at the Massachusetts Public Buildings Commission, nor have any bookkeeping records been installed by the Comptroller's Bureau as of date of audit. Records are kept for the information of the Commission of each project, showing total payments made and balance of appropriation to date.

The Commission has requested that the Comptroller's Bureau examine the above-mentioned records to determine whether or not they are sufficient to be maintained as a permanent record of the Commission.

STATE BOARD OF RETIREMENT

REPORT No. 2730

General: The previous audit report stated as follows:

"As was indicated earlier in this report only certain financial transactions in this department could be verified in connection with the current examination. The reasons extended by the department officials follow:

"During the 1946 and 1947 legislative sessions the entire State Retirement Law was rewritten. In this connection, the Board of Retirement was directed by the Division of Insurance to recompute all members' balances with particular regard to the interest credited. This resulted in three breakdowns of deposits and interest on practically all of the 22,000 members accounts.

"Inasmuch as this change was not authorized by the Division of Insurance until January 1949, the Board of Retirement was faced with the physical task of accomplishing these changes within a short time prior to the beginning of this audit.

"This work is now nearly completed. However, the proving of the interest and the balancing of the various control groups with the controls in the special and general ledgers are not yet finished for the year 1948. A trial balance of the General Ledger could not therefore be taken as of December 31, 1948.

"Machine Bookkeeping: The present system of manual accounting on the members' account cards is being replaced as of January 1, 1949 by machine bookkeeping and it is presumed that this arrangement will expedite the work to a great extent."

This examination terminated on June 30, 1950, and at this date the employees of the Board were still posting 1949 pay rolls to the individual employees' accounts in the bookkeeping machines. In order to make a complete audit of this department, it is necessary to have all postings made to the individual employees' accounts preliminary to the calculation of the interest and the proving and balancing of the special and general ledgers, etc. Since none of this work was completed, it was necessary to limit the amount of work done in connection with the current examination to the items outlined in the "Scope of Audit" section of this report. Therefore, the situation at the present time does not seem to have improved over a year ago.

An audit of this scope is not considered satisfactory by this office and if future ex-

aminations are to be adequately made, it will be necessary for the officials of the State Board of Retirement to see that all records are completed to December 31st of the year examined within a reasonable length of time after this date, thereby allowing sufficient time so that the audit may be completed by the following June 30th.

ATTORNEY GENERAL

REPORT No. 2651

Accounts Referred for Collection: A so-called docket card is made out in the chief clerk's office for each account transferred to the Attorney General for collection. The docket cards are filed alphabetically under the name of the individual or concern who owes money. This is true of all accounts transferred to the Attorney General with the exception of cases transferred by the Department of Corporations and Taxation.

The accounts referred by the Department of Corporations and Taxation to the Attorney General for collection may be divided into two groups:

1. Delinquent taxes which the Income Tax Division sends to the Attorney General in the form of one docket card for each case.

2. A list of corporations who have failed to file the annual certificate of condition, which list is sent by the Commissioner of Corporations and Taxation. From this list the chief clerk writes up the individual docket cards.

If the Attorney General has been put to any expense, namely, the cost of serving the papers by a deputy sheriff, such costs are charged when the return is filed. The chief clerk does not accept the \$10.00 fee for filing the annual certificate of condition, but makes certain that it is paid to the Secretary of State.

There appears to be no practical way that the Auditor can check the penalties and costs assessed by the Attorney General in connection with the filing of the certificates of condition.

The Attorney General uses his discretion as to whether suit shall be brought for the collection of the accounts, compromise the account or settle it without court action.

Several previous audit reports have stated:

"If it is desired to arrange the records in the office of the Attorney General so that the State Auditor may make a satisfactory audit of these accounts, several changes in the set-up are necessary:

"The mere checking of the receipts showing on the docket cards to the cash book kept by the chief clerk does not constitute an audit of the accounts.

- "1. The so-called card docket file which is arranged alphabetically by the names of the persons owing money should be supplemented by a file arranged by state departments and institutions and under each state subdivision there should be a record of each individual or concern owing money to that particular department or institution, and it should be the duty of whoever has charge of this record periodically to verify it by correspondence with the several departments and institutions.

- "2. All entries made in the above-described file for accounts settled in any manner except by the payment of the amounts due should be supported by authorizations signed by the officials responsible.

"In addition to the changes in the records, it will also be necessary to establish some definite policy for the chief clerk to follow in handling delinquent certificates of condition."

To date, none of the above recommendations have been carried out by the department.

Appropriation Deficiencies: The audit reports of the past several years have included references to appropriation deficiencies totalling \$2,248.12. It is understood that the department has made repeated efforts to get appropriations to relieve the situation and has not been successful. It is, therefore, recommended that the accounts be closed.

Advance Money: The previous audit report stated that two former employees of the department had not repaid advances made to them in the amount of \$133.86. It was noted that these advances were paid during the current audit period.

Boston Elevated Railway Company Declaratory Judgment Special Appropriation Account: This special appropriation balance \$9,888.05 reverted June 30, 1948 and as there have been no further transactions, it is recommended that this account be closed.

Bonds: It was again noted that the custodian of the advance fund was still not bonded.

DEPARTMENT OF AGRICULTURE

General Department

REPORT No. 2666

Certificates of Registration for Dairy Farms: Section 16C of Chapter 94 of the Tercentenary Edition of the General Laws, amended by Chapter 374 of the Acts of 1941 as most recently amended by Chapter 467 of the Acts of 1946 now provides that the Director of Dairying and Animal Husbandry may issue certificates of registration for dairy farms for no fee, provided the dairy farm meets certain requirements and has been inspected. If a certificate is lost, duplicate copies may be obtained from the director at a cost of fifty cents each.

In this connection the previous audit report stated:

"An attempt was made to verify the dairy farm inspection fees received during the audit period by use of certificate inventories, refunds, and pending items. It was not possible to make this verification. The statute authorizing the collection of a fee was changed by Chapter 467 of the Acts of 1946 to no fee for the original certificate and a fifty cent fee for a duplicate certificate.

"Separate records of certificates issued under the two statutes were not kept.

"Test checks were made of fees recorded as being received.

"Inasmuch as these certificates are all printed with a serial number, it is recommended that a block of certificates be kept separate and be used only for duplicate fees. In this way it would be possible to check the income from this source."

It was noted in connection with the current examination that a separate block of certificates were numbered and "stamped duplicate." These certificates were used exclusively for duplicates for which a fifty cent fee was charged and were effective in November 1948.

Poultry Dealers Transportation License Fees: Chapter 446 of the Acts of 1949 relates to the sale and transportation of poultry, and the bonding of licensees engaged regularly in the business of buying or selling poultry.

Cash on hand of \$16.00 held in the Bonding Section of the Department, represented license fees of \$2.00 each received and still pending on November 1, 1949.

From September 14, 1948 to November 1, 1949 the sum of \$968.00 had been received and licenses had been accordingly issued.

Inspection of Pasteurization Plants Located Outside the Commonwealth: Chapter 542 of the Acts of 1946 authorizes the issuing of permits of approval to pasteurization plants located outside the Commonwealth, if inspection of such plants by the Division of Dairying and Animal Husbandry indicated that they were complying with all rules and regulations set forth by the Milk Regulation Board. Under this act, a fee of \$10.00 was to be charged for permits issued to plants located outside the Commonwealth, no fee to be charged to plants located within the Commonwealth. These permits expire on May 31st of each year.

Income for this audit period amounted to \$320.00 and was checked to carbon copies made up on letterhead paper. It is again recommended that these certificates be made up by a printer and show a printed serial number, the amount of the fee and the expiration date. The year of expiration could be filled in by the Department. This type of certificate would do away with ordering new certificates every year.

DIVISION OF MILK CONTROL

REPORT No. 2665

Audit Limitations: Previous audits of the Milk Control Board have been limited by the refusal of the Board to produce certain records for audit. During the course of this audit the opinion of the Attorney General was sought as to the right of the Milk Control Board to withhold these records from examination. As a result of this request, on December 15, 1949 the Attorney General issued the following opinion:

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF THE
ATTORNEY GENERAL
STATE HOUSE, BOSTON 33

December 15, 1949

Hon. Thomas J. Buckley
State Auditor

Dear Sir:

You have recently requested my opinion regarding the effect of G. L. (Ter. Ed.) c. 11, s. 12, under the circumstances hereinafter described. You state that for several years the Department of the State Auditor has been unable to audit certain activities of the Milk Control Board because of the latter's refusal to submit for examination the so-called "Milk Dealers Audit Ledger," from which could be determined whether or not milk dealers have paid to the Board their monthly assessments required by law. This refusal of the Board has been due to an opinion rendered in March, 1946, by my immediate predecessor. That opinion, however, is based on a very narrow interpretation of the law and should not be followed.

G. L. (Ter. Ed.) c. 11, s. 12, imposes a duty upon the State Auditor as follows:

"The department of the state auditor shall annually make a careful audit of the accounts of all departments, offices, commissions and institutions and activities of the commonwealth, ... and for said purpose the authorized officers and employees of said department of the state auditor shall have access to such accounts at reasonable times and said department may require the production of books, documents and vouchers, except tax returns, relating to any matter within the scope of such audit ..."

One important financial activity of the Milk Control Board is the collection of monthly assessments from milk dealers. These assessments are based on the volume of milk handled by the dealers. The Milk Control Board has a set of books, called "Milk Dealers Audit Ledger," which contains a record of the payments made by dealers to producers from which could be computed the volume of milk purchased by dealers from producers.

G. L. (Ter. Ed.) c. 94A, s. 13 (d), as inserted by St. 1941, c. 691, s. 2 (relating to milk control), provides that "the information obtained by any inspection authorized or reports required by this chapter or by similar provisions of earlier law shall be treated as confidential and shall not be disclosed by any person except as may be required in the proper administration of this chapter ..."

An examination and analysis of said G. L. (Ter. Ed.) c. 11, s. 12, should not be made with physical or mental blinders which may defeat the main purpose of the statute. The scope of a statute is usually greater than the written word.

In *Price v. Railway Express Agency*, 322 Mass. 476, 484, the court said that we must look beyond the letter of the statute where a literal construction would be inconsistent with the legislative intent.

In *Brooks v. Fitchburg, etc. Railway*, 200 Mass. 8, 17, the court said that the statutes which appear to be inconsistent with each other in whole or in part must be so construed as to give reasonable effect to both unless there be some positive repugnancy between them; and in *Kelley v. Jordan Marsh Co.*, 278 Mass. 101, 111, the court said that a statute should be explained in conjunction with other statutes to the end that there may be an harmonious and consistent body of law.

Furthermore, if said Audit Ledger contained information of a confidential nature the Milk Control Board could prevent the disclosure of such information by eliminating it from the Audit Ledger and recording it in some other book or document.

I am therefore of the opinion that the Milk Control Board is required under the provisions of G. L. (Ter. Ed.) c. 11, s. 12, to produce said

Milk Dealers Audit Ledger for your inspection.

Very truly yours,
/s/ Francis E. Kelly
Attorney General

Although a copy of this opinion was presented to the Milk Control Board immediately upon receipt by this Department, the Board persisted in withholding these records until finally on January 16, 1950 the following letter was forwarded to the Attorney General:

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF THE
AUDITOR
STATE HOUSE, BOSTON 33

January 16, 1950

The Honorable Francis E. Kelly
Attorney General of the Commonwealth
State House
Boston, Massachusetts

Dear Sir:

On December 15, 1949, as a result of a request by this Department, you issued a written opinion stating that the Department of the State Auditor had the authority under existing statutes to require the Milk Control Board to produce for audit the so-called Milk Dealers Audit Ledger.

A copy of your opinion was presented to the Milk Control Board by this Department on the same date that it was received and, while the Milk Dealers Audit Ledger itself has been made available to this Department, the documents and records supporting the entries made in this Ledger have been continuously refused the Department of the State Auditor by the employees of the Milk Control Board. It must be immediately obvious that a ledger in itself cannot be audited because an audit, as such, must include examination of the records which support such a ledger.

During the considerable time which has elapsed the Milk Control Board, through its employees, has not made a final and direct refusal of these supporting records but has by various tactics deliberately and intentionally delayed their submission to a point wherein the audit, when finally performed, will have lost much of its value, since, to be effective, the element of time is essential to a comprehensive audit.

In view of the fact that I have been unable for such a long period of time to examine these records and in further consideration of the fact that the Milk Control Board, through its employees, will neither submit these records nor give a final denial to our request, I am writing to ask that you take such legal steps as are necessary before the Courts of the Commonwealth to require the Milk Control Board to comply with the statutes which relate to the auditing jurisdiction of the Department of the State Auditor and your opinion of December 15, 1949 thereon.

Yours truly,
/s/ Thomas J. Buckley
Auditor

TJB:dc

As a result of this second letter, the office of the Attorney General forwarded the following letter directly to the Chairman of the Milk Control Board on January 20, 1950:

January 20, 1950

Hon. George L. Barrus, Chairman
Milk Control Board
41 Tremont Street
Boston, Mass.

Dear Sir:

You have asked Attorney General Francis E. Kelly for an opinion

regarding the effect of G. L. (Ter. Ed.) c. 11, s. 12 under the circumstances hereinafter described. Your request has been turned over to me for research and study. On December 15, 1949 the Attorney General rendered an opinion to Honorable Thomas J. Buckley, State Auditor, regarding the statute in question. I therefore do not think a formal opinion of the Attorney General is required, but I will explain the effect of that opinion on the questions which you ask.

You have described in detail work sheets prepared by inspectors of your department from audits made of records kept by milk producers and records kept by milk dealers. You wish to know whether these records are included within the scope of an audit under the above-mentioned statute.

The opinion of the Attorney General rendered December 15, 1949 declared that the "Milk Dealers Audit Ledger" should be made available to the State Auditor on the ground that from this ledger could be determined whether the monthly assessments imposed upon milk dealers in accordance with law were properly made and collected by your board. It appears from G. L. (Ter. Ed.) c. 94A, s. 9, that these assessments are based on milk sold or distributed within the meaning of the statute, but does not include the sale or distribution of milk purchased from producers outside the Commonwealth. Consequently, in order for the State Auditor accurately to determine the assessments that should be made, he must ascertain from your records the status of the producers furnishing milk to the dealers. This work cannot be done unless all your records relating to that particular subject matter are made available to the Auditor.

Sections 13 (d) of said chapter 94A, relating to the confidential nature of information obtained by your inspectors is not an obstacle. One should not make a fetish of the word "confidential." The statute reads:

"Information obtained by any inspection authorized or reports required by this chapter or by similar provisions of earlier law shall be treated as confidential and shall not be disclosed by any person except as may be required in the proper administration of this chapter..."

The use of the word "confidential" in this statute does not close the door to all scrutiny. The words "except as may be required in the proper administration of this chapter" have an important significance. The legislature desires all State departments to function harmoniously and co-operatively. It therefore contemplated that "a proper administration of this chapter" by your board would involve submission of your records and accounts to the State Auditor in order to enable him to perform the duties imposed upon him by other statutory provisions. I am therefore of the opinion that your question must be answered in the affirmative.

Very truly yours,

/s/ H. WILLIAM RADOVSKY
Assistant Attorney General

Only upon receipt of this letter were the records in question finally made available to this Department, but throughout the course of the entire audit the cooperation of the Board was of a grudging nature and many other records were obtained only after lengthy discussions and needless delay.

It will be noted that nearly four years have elapsed since these records were originally requested, and it is also worthy of comment that a further delay of more than five weeks followed receipt by the Board of the opinion of the Attorney General.

It must be obvious that the effectiveness of this audit has been substantially reduced by these obstructing tactics.

General: The Milk Control Board was created originally for the primary purpose of protecting the financial interest of Massachusetts milk producers.

Under the broad provisions of the Act which created it, the Milk Control Board also regulates the price paid by the dealer to his producers, and in addition through the medium of a bond filed by the dealer with the Division of Milk Control, payment by the dealer to the producers is guaranteed.

The Federal Government, operating a somewhat similar agency, has the authority at any time to take over milk areas from control of this Division. Through the years the

Federal Government has gradually exercised this prerogative until finally as of January 1, 1950 the Federal Milk Administrator was in control of areas serving approximately 70% of the population of this Commonwealth.

The Division of Milk Control was designed to be self-supporting, and assessments, provided by law, levied upon the volume of business of Massachusetts dealers ostensibly provided funds to cover the cost of the Milk Control Board's operations. Assessments are therefore based entirely on the cost of the Milk Board operations. The dealer, in turn, is allowed to pass along to his producers a part of the cost of his assessment. It would seem that as a result of the gradual expansion of the Federal agency into areas previously covered by the Division of Milk Control, subsequent savings in the cost of the State Board would result. The records of the Board indicate that the results have been to the contrary. In the license year 1940-41, there were 2,049 milk dealers in this Commonwealth subject to control of the Division of Milk Control, while in the license year 1949-50 the number of dealers subject to the Division of Milk Control was only 1,001, a reduction of better than 50%. Despite this decline in the number of dealers subject to assessment audits, the number of employees in the Division of Milk Control increased from fifty-four to seventy-five as of October 1949, an increase of approximately 50%.

The Division of Milk Control also audits the financial records of dealers within the State areas for two main purposes; first, to determine the amount of assessments due the Commonwealth and secondly, to verify the accuracy of payments to Massachusetts producers.

In the Federal areas, these field men from the Division of Milk Control examine dealers' records only for the apparent purpose of establishing the amounts of assessments due to the Commonwealth. While the majority of the auditors of the field section of the Division are assigned to this phase of the work, the dealer is also subject, at any time, to examinations by employees of the Investigation Section of the Milk Control Board, the Enforcement Section, the Butter Fat Section, the Office Section, the Research Section, and the Bonding Section. In addition to these several possibilities, these same dealers and producers are subject to various types of inspection by the State Department of Agriculture, and in Federal areas by representatives of the Federal agency. It would seem that substantial saving could result from a consolidation of the duties of the various field representatives of the Milk Control Board and in addition the dealers would be relieved of considerable effort in meeting the various representatives.

It is also worthy of comment that many of these audits of small dealers in certain sections of the State cost substantially more than the total assessments received from the particular dealers concerned. It is also noted that contradictory reports were found in the files of the Division of Milk Control from concurrent examinations by different employees of this agency.

A substantial percentage of the funds collected are expended in determination of the income due the Division of Milk Control and it appears that little or no services are provided to either the dealer or the producer in return for the monies assessed by the Division.

The records of the Division of Milk Control seem to indicate that smaller dealers have been thoroughly audited throughout the years even as often as three to four times a year, whereas two large milk dealers operating within the Commonwealth have never been audited by the Division of Milk Control, while other large dealers have submitted reports which have been largely accepted without audit by the Division of Milk Control in determining their assessments. Obviously the Division applies one set of procedures to the large dealers and another to the smaller operators for reasons which were unsatisfactorily explained.

It is axiomatic that justification for the existence of any agency of government should be based on services performed for the public. Certainly an agency cannot be justified whose main function is to collect sufficient funds to pay its costs. In the case of this Division, a large percentage of the money now being collected as assessments by the Division of Milk Control is being expended for the sole purpose of determining that assessments are being paid in full by the dealers.

Continuous Violations of Chapter 94A, Section 9, Subsection A by Three of the Largest Milk Dealers: An examination of the Assessment Ledger showed that throughout the entire audit period three large milk dealers have consistently paid only token assessments on the due dates, and the Division has waited apparently without protest and quite patiently from six to eighty-six days for payment of the balance of the assessment. There is no record of any recent action taken by the Division to correct this condition. The prompt payment of a portion of the assessment gives the dealers the right to recover 50% of the assessment applicable to Massachusetts produced milk as provided by Chapter 94A, Section 9, Subsection B. It is questionable as to whether or not these dealers have the right to col-

lect from their producers any more than the dealers' share of the small token payment.

Continuous Violations of Chapter 94A, Section 13, Subsection B, by the Same Three Large Milk Dealers: An examination of the Report of Milk or Cream Sales and Remittance Vouchers, due on or before the tenth of the month for the milk and cream sold during the previous calendar month by milk dealers subject to assessment, indicated that this information was omitted from the forms submitted by the same three large milk dealers with their token payment. This information should accompany the payment of the delinquent assessments.

Laxity of Board Using Report Forms Not in Conformity with Statutes: An examination of the various forms mailed monthly by the Division to dealers for information to be submitted, and which are required by Chapter 94A, Section 13, Subsection B to be under the penalties of perjury or an oath, showed that there was mailed to certain dealers for the period under audit a report form known as the "Flat Plan" which does not require the information to be submitted under oath or under the penalties of perjury. Since this form is an alternate to the "Composite Plan" or "Rating Plan" forms which are both submitted under the penalties of perjury, it would appear that only the dealers reporting on the latter type of forms can be held responsible for the accuracy of their information. In the interest of all the dealers, it appears desirable, and it is therefore suggested that the Board correct this situation by ceasing to require report forms which are not in conformity with the statutes quoted.

Licenses Before Board for Statute Violations: As of the date of audit, November 1, 1949, there were eighteen small dealers' licenses before the Division for action for being in arrears in their payments to the Board for assessments or to milk producers for purchases of milk.

It is interesting to note that the licenses of three large milk dealers owing assessments totaling \$5,258.85 on November 1, 1949 were omitted from the above list.

Overdue Producer Payments in Excess of Bond of Dealer: As of November 1, 1949, a milk dealer owing his milk producers a total of \$524.49 had as collateral security for these producers a bond for \$300.00 on hand with the Division. One month later, the same milk dealer's liability to milk producers had increased to \$799.56. The Dairy Division has made several efforts to have the milk dealer increase his bond to \$1,000.00, but to May 1, 1950 no bond other than the original \$300.00 bond was on deposit with the Dairy Bonding Division.

Decline in Number of Dealers Subject to Assessments Inconsistent with Increase in Number of Personnel: A review of the number of milk dealers paying assessments to the State for the ten license years, 1941 to 1950, show a consistent decline, whereas the number of employees of the Board for the same period indicate a steady increase. Below are figures from the Board's records:

License Year	Dealers Subject to Assessments		Personnel of Board
	Over 50 Quarts Daily	From 30 to 50 Quarts Daily	No.
1940-41	1,796	253	54 (Oct. 1941)
1941-42	1,675	228	
1942-43	1,583	173	64 (Oct. 1945)
1943-44	1,455	148	
1944-45	1,381	118	
1945-46	1,324	103	
1946-47	1,266	82	
1947-48	1,151	61	
1948-49	1,079	55	75 (Oct. 1949)
1949-50	945	56	

No Assessment Audit Made of Large Milk Dealer for Fourteen Years: From information submitted by officials and the records of the Division, milk dealers in the Federal areas are still subject to assessment audits by the Massachusetts Milk Control Board for the purpose of determining the accuracy of the assessments paid to the State. An examination of these records of the Division disclosed the extraordinary fact that one of the largest milk dealers in Massachusetts has never had an assessment audit by representatives

of this Division since the establishment of the Board in 1934.

Assessments: Audit reports for the past several years have emphasized the fact that one of the most important financial activities of the Division of Milk Control is the collection of monthly assessments.

The estimated unpaid assessments as reported by the Division as of November 1, 1949 totaled \$12,394.14. A summary of these estimated unpaid assessments follows:

<u>Number of Dealers</u>	<u>Number of Months Owning</u>	<u>Estimated Amounts Due</u>
113	1	\$ 5,792 76
47	2	510 92
63	3	977 98
22	4	287 29
14	5	288 35
17	6 and over	3,568 09
276		<u>\$11,425 39</u>
12 not on books		968 75
288		<u>\$12,394 14</u>

It was also noted that these unpaid items are still not set up as Accounts Receivable on the books of the Division for control purposes, and it is therefore again suggested that steps be taken to set up proper accounts for their control.

Assessments with Attorney General: The balance of assessments with the Attorney General on date of the previous examination was \$400.00. This amount was paid during the current audit period. There were no assessments with the Attorney General on date of current audit, although certain items as indicated by the foregoing should be turned over for disposition. It is recommended that all future accounts placed with the Attorney General for collection be carried separately as suspense accounts receivable.

Collateral to Be Returned: It was found that the total collateral on hand for inactive operators amounted to \$3,226.86 on date of audit and consisted of the following:

	<u>Value</u>
15 bankbooks	\$1,506 86
2 insurance policies	580 00
3 shares of stock	600 00
1 real estate mortgage	440 00
1 land mortgage	100 00
	<u>\$3,226 86</u>

Inasmuch as the Commonwealth apparently has no equity in these items, it is suggested that steps be taken to return this collateral to their owners and the parties concerned be notified of the release of assignments, etc.

Ledger Records: The previous audit reports revealed irregularities in bookkeeping which, as of date of audit, remain unchanged.

- "1. Balances were not brought forward from year to year where collateral of some sort was being held on inactive accounts. Some of these accounts were several years old and in some instances ruled off, although the collateral was still held and in control.
- "2. Numerous active accounts where the notes, collateral, etc., remained the same were not brought forward to the current year, and again some were ruled off as though closed.
- "3. Several entries had not been made to cover the notes or assignments of record due to the fact adjustments were pending. It is felt that the amounts of record should have been entered and the adjustments made when the new notes, assignments or collateral were received."

It is further suggested that all accounts with any activity whatever, even though only

holding collateral, should be shown as an open account in the ledger for audit and control purposes.

DEPARTMENT OF BANKING AND INSURANCE

DIVISION OF BANKS

REPORT No. 2670

Central Organization Fund: The balance in the Central Organization Fund on date of audit was \$1,157.63. There was received into this Fund during the current audit period the sum of \$71.49, representing reimbursements for damage done to property at the warehouse in Cambridge caused by juvenile vandalism.

This warehouse contains book records of seven banks which were closed by the Commissioner of Banks and ultimately went into liquidation. It also contains documents or articles found in various safe deposit boxes of these banks which had been rented by persons whose present addresses are unknown. The contents of these boxes have been removed and placed in individual envelopes by a notary public in accordance with statute prior to being turned over to the Commissioner by the Director of Liquidations.

These envelopes include lapsed insurance policies, presumably worthless stock certificates, outlawed promissory notes, and similar documents which apparently are of no value to the Commonwealth.

Although the Commissioner was obliged to hold these papers only until August 31, 1949 under Section 35A of Chapter 167 of the Tercentenary Edition of the General Laws, as amended by Chapter 122 of the Acts of 1943, they are still being stored at this particular warehouse. It is suggested that steps be taken to dispose of this property in accordance with this aforementioned statute.

New Sources of Revenue: Two new sources of income for the Division of Banks were developed during the current audit period. These resulted from Examination of Savings Banks and Licensing of Collection Agencies.

Chapter 527 of the Acts of 1948, which became effective on July 1, 1948, provided for a fee for the examination of savings banks as follows:

"The expenses of the annual examination of a savings bank shall be borne by the corporation, and shall be limited to the actual cost of such examination and such additional sum for the overhead expenses, exclusive of charges for traveling expenses, of said division as the commissioner shall determine to be attributable to such examination, or to an amount not exceeding five cents per one thousand dollars of the first one hundred million dollars of assets of the corporation, as shown by its statement of condition as of the date of such examination, whichever is the lesser."

There are 190 savings banks in the Commonwealth. It was noted that all were audited during this period. With the exception of ten banks, they have all reimbursed the Commonwealth for their respective examinations. It is understood that these ten have not reimbursed the Commonwealth only because the cost of their examinations had not yet been determined.

The total amount received as reimbursements from this source totaled \$182,970.17.

Chapter 711 of the Acts of 1949, which became effective November 22, 1949, reads as follows:

"AN ACT FURTHER REGULATING COLLECTION AGENCIES"

"SECTION 1. Chapter 93 of the General Laws is hereby amended by striking out section 24, as appearing in the Tercentenary Edition, and inserting in place thereof the following: Section 24. No person, partnership, association or corporation, not being an attorney at law duly authorized to practice in the commonwealth, a national bank or a bank or trust company incorporated in the commonwealth, shall conduct a collection agency, collection bureau or collection office, or engage in the commonwealth solely in the business of collecting or receiving payment for others of any account, bill or other indebtedness, or engage in the commonwealth solely in soliciting the right to collect or receive payment for another of any account, bill or other indebtedness, or advertise for or solicit in print the right to collect or receive payment for another of any account, bill or other indebtedness, without first obtaining from the commissioner of banks a license to carry on said busi-

ness in the place where the business is to be transacted, nor unless such person, partnership, association, or corporation or the person, partnership, association or corporation for whom he or it may be acting as agent has on file with the state treasurer a good and sufficient bond. The commissioner of banks may require such financial statements and references of all applicants for a license as he deems necessary. He may also make or cause to be made an independent investigation concerning each applicant's reputation, integrity and net worth, at the expense of the applicant, and for that purpose may require such deposits against the costs thereof, not to exceed twenty-five dollars, as he deems adequate.

"SECTION 2. Said chapter 93 is hereby further amended by inserting after section 24, as so appearing, the following section: --Section 24A. Licenses granted by the commissioner of banks under section twenty-four shall be for a period of one year from October first. Each such license shall plainly state the name of the licensee, and the city or town, with the name of the street, and the number, if any, of the place where the business is to be carried on, and shall be posted in a conspicuous place in the office where the business is transacted. The fee for all such licenses shall be not more than twenty-five dollars. If the licensee desires to carry on business in more than one place, he shall procure a license for each place where the business is to be conducted."

The fee for these licenses has been set at \$25.00.

At the present time, no regular permanent printed or engraved license has been developed for issue to the collection agencies. A temporary license is presently issued to those applicants who comply with the Department's regulations. It is understood, however, that serially numbered forms are to be printed in the near future.

It was also noted that checks from various collection agencies were attached to the applications in folders until such time as they were approved by the Commissioner of Banks. It was suggested that all remittances for these licenses should be promptly turned over to the Head Administrative Clerk for deposit with the State Treasurer. If it later develops that a refund is necessary, it should be processed through regular channels.

Examination of Banking Institutions: Costs of examinations of trust companies, savings and loan associations, and Morris Plan banks are paid by the banks concerned. Charges for examinations of co-operative banks, credit unions, and savings banks are based on a percentage of the assets of the institutions concerned and do not in every case cover the complete cost of the examination.

In the period from November 20, 1948 to December 6, 1949 the costs and reimbursements were as follows:

	Cost	Reimbursements	Difference
Miscellaneous Financial Institutions	\$ 815 08	\$ 815 08	-
Savings and Loan Associations	2,307 71	2,307 71	-
Other Banking Institutions	5,719 17	5,719 17	-
Credit Unions	57,305 59	22,626 70	\$34,678 89
Trust Companies	123,804 52	123,804 52	-
Co-operative Banks	144,835 05	121,134 47	23,700 58
Savings Banks	216,371 66	182,970 17	33,401 49
	<u>\$551,158 78</u>	<u>\$459,377 82</u>	<u>\$91,780 96</u>

DIVISION OF INSURANCE

REPORT No. 2719

Accounts Receivable: It was noted that copies and certificates totaling \$15.00 had been issued for which no cash had been received. This was taken up with the bookkeeper who forwarded bills for these accounts.

SUPERVISOR OF LOAN AGENCIES

REPORT No. 2680

Bonding of Employees: It was noted that employees were not bonded.

DEPARTMENT OF CIVIL SERVICE AND REGISTRATION

BOARD OF REGISTRATION OF ARCHITECTS

REPORT No. 2688

Applications on File: Section 44C of Chapter 696 of the Acts of 1941 states as follows:

"The board may make such rules or by-laws, not inconsistent with law, as it may deem necessary in the performance of its duties."

It is the present policy of the Board to allow an applicant who has failed the written examination to take another examination without payment of an additional application fee. However, if the applicant has failed a second time then a new fee of \$25.00 must be paid to take another written examination. Once an applicant has taken either an oral or written examination the fee will not be returned.

There are 177 applications now pending. These comprise those entitled to a second examination; those awaiting an appearance before the Board, and those whose applications have been disapproved. In the latter case the Board notifies the applicant of such disapproval but retains the application in the pending file until the applicant requests a return of the fee. Upon receipt of such a request, the fee is refunded by the Board.

Forty-nine of the applications now pending have been in the files since 1943. Until they are reviewed and disposed of, a reduction in the pending file cannot be expected.

It is recommended that once an application is finally disapproved that the fee be returned immediately to the applicant without awaiting a formal request.

BOARD OF REGISTRATION OF BARBERS

REPORT No. 2694

General: Section 41 of Chapter 13 of the Tercentenary Edition of the General Laws provides:

"....provided, that the salaries and expenses of the members of the board and the expenses of the board shall not be in excess of the receipts for registration and from other sources received by the state treasurer from the board."

It was noted that the salaries and expenses exceeded the receipts for the three fiscal years 1947, 1948 and 1949.

Accounts Payable: Although the records of this board include an unpaid balance of \$467.01 in accounts payable for the last fiscal year, this balance cannot be described as a deficiency, since balances in excess of \$800.00 in the appropriation of this board were reverted by the Commission on Administration. This matter was fully reported in the audit of the latter agency.

BOARD OF REGISTRATION OF CERTIFIED PUBLIC ACCOUNTANTS REPORT No. 2702

Departmental Records: Practically all financial records of this board originate in the private office of the Secretary of the Board. The cash book and cash receipts are handled by the personal employee of the Secretary. It was noted that the Secretary of this Board is not bonded nor are any of those individuals who handle the receipts of this agency.

Increase in Expenses: It will be noted from Schedule II of this report that the expenses of the Board increased from \$2,500.00 in the fiscal year 1947 to \$7,245.22 in the fiscal year 1949. The extra costs can be attributed entirely to a large increase in the number taking the examinations for Certified Public Accountants, which required the hiring of both Horticultural and Symphony Halls and added substantially to the cost of marking papers.

BOARD OF REGISTRATION IN CHIROPODY

REPORT No. 2709

Fees: Chapter 557 of the Acts of 1948 increased the fees on examinations and renewals and established a reinstatement fee. The changes in fees are as follows:

	New Fees	Old Fees
Examination	\$25 00	\$15 00
Re-examination	5 00	2 00
Renewals	5 00	2 00
Reinstatement Fee	5 00	-

Registration of Certain Applicants: It was noted that during the audit period thirty-five applicants passed the examination but were not registered because of the fact that they did not fulfill the requirements of Chapter 557 of the Acts of 1948, i.e., complete a four-year course in chiropody in a school approved by the board.

It is understood that the board is waiting further legislation to clarify the situation.

BOARD OF REGISTRATION OF DENTAL EXAMINERS

REPORT No. 2714

Fees: Chapters 564 and 576 of the Acts of 1949 increase the fees of this Board as follows:

	<u>New Fee</u>	<u>Old Fee</u>
Dentist Examination	\$40 00	\$20 00
Re-examination	10 00	Free
Interne Certificate	10 00	5 00
Hygienist Examination	20 00	10 00
Second Re-examination	10 00	5 00

Annual Registration: Chapter 112, Section 44 of the General Laws provides that all licenses shall be renewed each year before April 1st. It was noted at date of audit that approximately 10% of the previous year's registrations had not been renewed.

It is recommended that this Board, by correspondence or otherwise should follow up on some methodical basis all those instances of registrations in the previous license year that did not register in the current year.

Bonds: It was again noted that the secretary of the Board is still not bonded. The senior clerk, who actually handles the office cash is now bonded by a blanket bond issued to the Division of Registration.

STATE EXAMINERS OF ELECTRICIANS

REPORT No. 2713

Income: On the date of audit the income on hand amounted to \$1,183.00. This represented income for the first twenty-five days of April. It was further noted that deposits were made only once each month during the audit period.

Section 27, Chapter 30 of the Tercentenary Edition of the General Laws provides that State Revenue shall be paid into the State Treasury daily unless special permission has been granted to pay on a weekly basis, and it is suggested that steps be taken to conform with this statute.

Travel Advance: On the date of audit it was found that the entire advance money was in currency in the office in the amount of \$1,157.30. It is recommended that this money be deposited in a checking account and not kept in the office, as the present practice is not consistent with sound procedure.

BOARD OF REGISTRATION IN EMBALMING AND FUNERAL DIRECTING REPORT No. 2716

Examinations: At present a receipt taken from a serially numbered, duplicate copy, receipt form (the fee is not printed on the receipt) is given to those paying fees in currency in the office. If fees are paid by check or are received by mail, no receipt is given. In this connection, previous audit reports have stated:

"It is advised that a receipt taken from a duplicate copy serially numbered receipt form be given to each person paying an examination fee."

As this recommendation has not been followed, attention is again called to it.

BOARD OF REGISTRATION IN MEDICINE AND NURSING

REPORT No. 2648

General Handling of Cash: Previous audit reports have repeatedly noted that between both boards seven persons handle cash receipts account of income, and have recommended that a study be made by the Division of Registration and the Comptroller's Bureau as to the advisability of relieving these several persons of this duty by designating one person as cashier for the two boards. As the situation still remains the same, attention is again called to it.

Relating to Board of Registration in Medicine Suspense Account: The previous audit report stated:

"As now installed, the suspense accounts for examinations and certified statements are merely reference accounts without control or proof. Only those entries are put in suspense which cannot be given an applica-

tion number of acceptance. Items in suspense, such as those waiting examinations, are not considered suspense items. It is recommended that the Division of Registration and the Comptroller's Bureau study the feasibility of making the suspense account an actual controlling account."

Inasmuch as nothing has been done in this regard, attention is again called to it.

Application Numbers: The previous audit report recommended that the Comptroller's Bureau review the methods now in use with the idea of giving each entry a cash book entry number, this number to appear on the application. As this has not been done, attention is again called to it.

Serial Numbered Forms: It was noted that the engrossed certificates, temporary certificates and rejection slips were not serially numbered by the printer, but were numbered with a "Numbering Stamp" by the division. It is again recommended that in the future these forms be serially numbered by the printer.

BOARD OF REGISTRATION IN PHARMACY

REPORT No. 2711

Current Pending Applications: These items, as of April 20, 1950, consisted of one hundred and nineteen applications for examinations for Registered Pharmacists, fifteen drug store permits, fourteen for Certificates of Fitness, one for Wholesale Druggists, four for re-instatements, five for duplicate certificates, and five for reciprocal registration fees.

Pending Applications in the Inactive Files: These applications represent eighty-four who have failed to appear for examinations.

Numbering of Certificates: It was noted that the certificates issued to Registered Pharmacists upon passing examination are numbered by hand numbering machine by the Pharmacy Board personnel. It is suggested that this numbering of certificates be done by the printer.

BOARD OF REGISTRATION IN VETERINARY MEDICINE

REPORT No. 2712

Pending Applications: It was again noted that there was one pending application filed in June 1940 still awaiting examination. The fee of \$15.00 had been paid and deposited with the State Treasurer.

DEPARTMENT OF CONSERVATION

General Department

REPORT No. 2721

Advance Money: The two previous audit reports commented in detail upon the book-keeping conditions noted at the time in relation to the advance monies, and quoted Sections 23 and 24 of Chapter 29 of the General Laws, As of the date of the current audit the following conditions were again noted:

1. Returns of Advance monthly reports include expenditures against anticipated future receipts of Advance Money, and not the actual cash on hand available at the time the expenditures were made.
2. Monthly reports of Returns of Advances in many cases include expenditures made and recorded subsequent to the date shown on the monthly report.
3. Monthly reports of Returns of Advances are not forwarded to the Comptroller on the date compiled, but are retained in the department until the amounts of anticipated receipts from the State Treasurer have been received.
4. All advances are deposited in one bank account, against which two series of checks are drawn; one for pay rolls and the other for expenses.
5. Semi-monthly pay roll expenditures are recorded in the Cash Disbursements - but - with no entry made for the amount of Withholding Taxes and Retirement Deductions being recorded, thereby allowing these funds to be available for expenditures of other items.

In view of the foregoing the following suggestions are again offered, which it is believed will correct the practices indicated heretofore:

1. Monthly reports of Returns of Advances reflect only the accounts of actual recorded receipts and expenditures for the periods covered by the reports.
2. Requests for advances be made for sufficient amounts to eliminate the mis-use of accounts balances.
3. Receipts and/or refunds of disallowed items be recorded individually in the Cash Book by account number.
4. Expenditures be recorded individually in the Cash Book by account numbers.
5. A pay roll bank account be opened, in which the gross amount of pay rolls will be deposited and against which pay roll checks will be drawn.

Allotment Expenditures Control Register: In this connection the previous audit report stated:

"An allotment Expenditure Control Register, is maintained in the central bookkeeping office of the department for the following divisions:

1. Administration
2. Marine Fisheries
3. Forestry
4. Law Enforcement

The division of Parks and Recreation maintain an Allotment Expenditure Control Register in that division.

"An Accounting Manual, issued by the Comptroller's Bureau, is on file and available for the assistance and guidance of the personnel in the central bookkeeping office. However, the procedures as outlined in this accounting manual in reference to Encumbrances and Liquidations of Allotments is not being followed by the department.

"The attention of the department officials is specifically called to pages 35 to 40 inclusive, of the Accounting Manual, a copy of which is on file in the Central Bookkeeping Office."

During the current audit period the following situation was noted: On August 3, 1949 the Comptroller's Bureau issued thirty-two Journal Entries to close the books of this department for the fiscal year ending June 30, 1949. Ten of these Journal Entries affecting approximately thirty-seven accounts were not used by the department. No Journal Entries were issued to close the balances in the sixteen allotment accounts; six of these Journal Entries were issued to close or revert the balances in the appropriations accounts, which balances did not appear on the books in these accounts, but was used in closing both the appropriation and allotment accounts. One of these Journal Entries was partly used.

While this audit was in progress a member of the field staff of the Comptroller's Bureau visited this department. As a result of this visit the following letter was sent by the State Comptroller to the department.

Commission on Administration and Finance
State House, Boston

May 31, 1950

Mr. Arthur T. Lyman, Commissioner
Department of Conservation
15 Ashburton Place
Boston, Massachusetts

Dear Sir:

A visit was made to your Department by a member of the Field staff of this Bureau. The records maintained by your Accounting Division were examined during the course of this visit.

The scrutiny of the records showed that many procedures set forth in the Accounting Manual are not being complied with by the personnel who are charged with this responsibility. No action has been taken to rectify conditions which were criticized in the last Audit report, despite the fact that several months have elapsed since the Report was

published.

It is recommended that prompt and vigorous action be taken to have these conditions rectified without further delay.

Very truly yours,

FRED A. MONCEWICZ
Comptroller

by R. E. Houghton
Deputy Comptroller

EJT/D

Accounts Receivable with Attorney General: The previous audit report stated in this respect:

"Attention of the department officials is called to page 43 of the Accounting Manual, relative to the procedure to be followed when accounts are forwarded to the Attorney General for collection."

As this recommendation has not been followed, attention is again called to it.

Bonded Positions: At the present time, there are only four employees bonded.

A comment in this regard has appeared in previous audit reports and at those times it was suggested that all employees handling funds be bonded.

A request has been made in the 1951 budget for funds to meet the premium of a faithful performance and fidelity position schedule bond.

Parks and Salisbury Beach Reservation Fund: The previous audit report stated in this connection:

"Under authority of Sections 4, 5 and 6 of Chapter 132A of the General Laws (Tercentenary Edition), as amended, the Comptroller annually estimates the amount of "State Parks Assessments" so-called, against certain cities and towns in the Commonwealth. On June 30, 1948 there was an accumulated surplus from this source of \$57,210.64, as shown by the records of the Comptroller."

As of June 30, 1949 there was an accumulated surplus in this fund of \$64,572.18.

It is again recommended that the Comptroller's Bureau be requested to open accounts in the General Ledger so that this surplus may be properly recorded on the financial records of the department.

Receiving Records: Previous audit reports stated in this respect:

"At present, the receiving records consist of the following - there is a so-called "Receivers Copy" for the State Purchase Bureau purchase orders, and for departmental purchase orders, which are signed by the person receiving the merchandise, but for N. P. O. purchases the receipt of the merchandise is indicated by the signature of the person receiving the goods on the invoice itself.

"It is recommended that the Comptroller's Bureau be requested to provide the standard duplicate copy receiving book, which should be used in all places where merchandise is received."

As this recommendation has not been adopted, attention is again called to it.

Central Bookkeeping Office: Previous audit reports have stated:

"The central bookkeeping office was established in 1940, and it is recommended that the Comptroller's Bureau review the entire bookkeeping set up of the department to determine whether some of the detail now being done in the central bookkeeping office is not being duplicated in the several divisions."

General: In this department there are three divisions. All income received by the various divisions is turned over to the head bookkeeper in the department who deposits the income with the State Treasurer on a regular receipts voucher. An analysis of receipts by divisions is made and recorded in a loose leaf binder. It is then entered in the general cash book in totals by divisions.

It is suggested that each division should deposit with the State Treasurer all income received on a regular receipts vouchers and submit a copy of it to the head bookkeeper in the department, who in turn will record it in the general cash book.

It is further suggested that each division keep its own special column income cash book.

Store Accounts: It is again recommended that the Comptroller's Bureau set up a control account in the General Ledger for the unissued supplies kept in the storehouse at Stow.

DIVISION OF FISHERIES AND GAME

REPORT NO. 2715

Income: As of the date of audit, returns of the receipts from the sales of 1949 licenses by the Town of Canton in the sum of \$98.00 had not been received by the Division. The Town of Mashpee on the date of audit also owed \$26.25 for receipts from the sales of licenses for the 1949 year.

Void Licenses: There were several instances where license stubs were marked "void" in pencil, however, the voided licenses were not attached nor was an explanation available. Other instances were noted where the license had been torn from the license book presumably by the printer. It is suggested that a memorandum should be made available by the director covering each such transaction for audit purposes.

Cashing Personal Checks: It was learned that personal checks had been cashed by persons from the office cash drawers. This is in direct violation of the instruction in the Comptroller's Manual and the practice should be immediately discontinued.

Persons Bonded: It would appear that all persons handling State monies are not bonded. At the present time only the Director and two Principal Clerks are bonded.

It was learned that during lunch hours when the regular clerks who take care of the counter to give out licenses were not available, a clerk from the Division of Law Enforcement, which is entirely a separate division, took over these counter duties. This matter was discussed with the Director of the Division who indicated that other arrangements would be made in the future.

Shortage in Income Cash Account: On the opening day of the current audit, it was learned that the sum of \$25.00 had mysteriously disappeared from a cash drawer at some time during the preceding ten days. On June 8, 1950, it was learned that the additional sum of \$28.00 had also disappeared from the same locked cash drawer. The matter was discussed with the Director of the Division and with the employees who had most recently been in charge of these particular funds and the cash could not be located nor could the reasons for the shortage be determined.

The records were checked and the amounts of the acknowledged shortages were reconciled with the licenses supposedly issued.

The methods used in receiving and handling the income from which these shortages developed were reviewed and many shortcomings in the procedure were noted. It is, therefore, advised that the Comptroller's Bureau be requested to provide this department with a more practical routine for handling these receipts so that instances such as were noted will not again occur.

Cash Held in Office: On the date of audit, a request was made of the office personnel handling cash whether all funds in the office had been turned over for audit verification, and it was indicated that this had been done. At a later date - in June 1950 - several folders of Propagator's Licenses containing cash, money orders, postal notes and bank checks some dating as far back as February 1948, in the aggregate amount of \$132.75 were found in the office.

This money was all deposited with the State Treasurer while the audit was in progress. It is advised that henceforth all cash be deposited on receipt. If it later develops that a refund is necessary, it should be handled through channels provided by regular State financial practices.

DEPARTMENT OF CORPORATIONS AND TAXATION

General Department

REPORT NO. 2736

For many years this audit has been initiated during the spring of each year. Since a

substantial portion of the audit program deals with the Income Tax Division, and since tax returns are filed during the month of March, the audit has been conducted under some difficulty and at some inconvenience to the Income Tax Division. In order to comply with statutory provisions requiring annual audit, this audit was initiated on June 29, 1950 and includes only a reconciliation of cash. A complete audit for the fiscal year ending June 30, 1950 was initiated on July 1, 1950, and all future audits will be initiated after the close of each fiscal year. This procedure will result in less inconvenience and a much more satisfactory report for comparative purposes, since all schedules contained in future reports will cover a full fiscal year's operation of the department.

DIVISION OF ACCOUNTS

REPORT No. 2707

Materials and Supplies - Obsolete Items: In connection with the materials and supplies inventory taken on the date of audit, it was noted that certain items in stock appeared to be obsolete. It is advised that they be disposed of and charged off the records.

DEPARTMENT OF CORRECTION

MASSACHUSETTS REFORMATORY

REPORT No. 2655

Unpaid Check Fund: The reconciliation of the special pay roll bank account indicated that an unpaid pay roll check, in the amount of \$55.26, has been designated as an outstanding check for over a year on the institution's records.

There were also four checks totaling \$6.10 drawn on the Inmates' Fund account which have been outstanding for more than one year.

It is recommended that payment be stopped on these checks and the proceeds be disposed of in conformance with the instructions in the Comptroller's Manual.

Transfers Within Maintenance Appropriation: No letters of authorization from the Comptroller's Bureau could be found authorizing the transfer of funds among the various expenditure items within the maintenance appropriation, although such transfers did in fact occur during the audit period.

The treasurer and steward stated that the Comptroller's Bureau does not send out such letters any longer, but that they were informed by the Bureau to rely upon the Comptroller's Daily Statement of Transactions for the approval of such transfers.

An examination of this Daily Statement does not indicate which accounts were increased by transfers within the maintenance appropriation. While it is true that the Daily Statement gives a journal voucher reference, this reference points to records located only in the Comptroller's Bureau.

It is, therefore, recommended that the institution be informed by the Comptroller as to what transfers were approved.

Heat, Light and Power: As of June 30, 1949 the records of the Industries Division showed a liability in excess of \$12,000.00 for heat, light and power due to the Maintenance Division. This amount is due and owing to that Division, but an examination of these accounts did not indicate that any account receivable has been set up in this amount.

The expenditures for coal, labor, and other costs necessary for the generation of heat, light and power are originally paid by the Maintenance Division which later bills the Industries Section for its proportionate share.

Profit and Loss - Industries: It was noted that the furniture department operated at a profit of \$21,273.68 while the cloth department showed a loss of \$16,756.26 for the fiscal year ending June 30, 1949. Apparently cloth cannot be sold by the institution at a price high enough to insure a profit over and above the costs of production. Moreover it was noted that the cloth sales have decreased considerably over those of prior years. It should be pointed out, however, that this is the first year that the cloth department has operated at a loss.

REFORMATORY FOR WOMEN

REPORT No. 2723

Income: Included with the income is an item for Board of Employees which, in reality, represents charges for rooms of guests of employees of the institution. A charge of \$.35 is made for each overnight guest.

Attention is called to Paragraph 8 of the Commission on Administration and Finance Bulletin No. 105, dated September 28, 1949 as amended by the Commission on Administration and Finance Bulletin No. 112, dated March 1, 1950, which states:

"The superintendent of institutions in the Departments of Correction, Mental Health, Public Health, and Public Welfare, of institutions under the supervision of the Youth Service Board, and of the Soldiers' Home, subject to the approval of the Commissioner in charge of the Department and of the Commissioner of Administration, may, where quarters are available on institutional property, assign not more than one room, free of charge, to those Affiliate Student Nurses, Social Service Students, Medical Students, Medical Student Internes, other student or volunteer workers, or any other persons who receive no compensation from the Commonwealth."

Attention is also called to a copy of a letter dated April 12, 1950 from the Commissioner on Administration and Finance to the Department of Correction a copy of which was received at this institution on April 17, 1950 which follows:

April 12, 1950

Mr. E. L. Spurr, Business Agent
Department of Correction
State House, Boston, Mass.

Dear Sir:

This acknowledges receipt of your communication of April 10, 1950, enclosing a letter dated April 7 from Miss Inga M. Johnson, Steward at the Reformatory for Women.

She requests a rate per night for a single room without bath on the first floor of the Staff Home. The room in question is used by staff members who find it necessary to remain overnight at the institution. The rate to be charged for this room is 35 cents per night.

In the last paragraph of her letter, however, she states, "It is also used by Staff Members for relatives and friends and used by guests of the Institution."

The Rules and Regulations Governing Rents contain no provision for the use of such a room for relatives and friends of Staff Members, and such usage is prohibited. "Guests" of the institution may use such a room only under the conditions contained in Rule 8. This rule, as with Rule 5 on Employee Feeding, has always been interpreted by the Commission to require a certification from the Superintendent that the individual is performing service of benefit to the Commonwealth.

Very sincerely yours,

Thomas H. Buckley,
Commissioner of Administration

Even though the foregoing has been brought to the attention of the institution authorities, the practice of allowing friends and relatives of institution employees to remain overnight has not been eliminated although it is in direct violation of Administration and Finance regulations.

Inventories: The inventory records on the date of audit indicate unfilled orders totaling as follows:

Sewing Department	\$44,106 80
Flag Department	7,541 84
Knitting Department	4,064 90
Poultry Department	1,562 30
	<u>\$57,275 84</u>

The institution's records also show that during the period May 1, 1949 to April 30, 1950 the average number of inmates employed in the industries was 47 in comparison with the average number of inmates at the institution for the same period of 308. Therefore, only approximately 15% of the inmate population has been employed in the industries during this period.

Attention is further called to the fact that the actual overhead of the industries, that is, paid officers, expenses, etc., is constant, yet because of the lack of sufficient inmate employees the industry production is correspondingly low.

Materials and Supplies: An analysis of the adjustments on account of materials and supplies indicates that the total adjustments made during the audit period were \$14,689.95.

A survey of these adjustments showed that many were due to clerical errors.

It was explained by institution authorities that the errors were caused by the many changes in personnel on the stock ledgers and in the storeroom. During the audit period there were three different employees on the stock ledgers and three employees in the storeroom.

It is suggested that complete physical inventories be taken monthly and that all variances be carefully checked before any adjustments are made on the records.

Farm: An analysis of the monthly livestock census reports for the 1949 farm year showed that two sows were not accounted for.

It was also noted that the mortality of animals was higher than normal. It was explained by the institution head farmer that during the month of August 1949 the swine herd contracted erysipelas with epidemic severity.

Inmates' Accounts: On the date of the audit there was on hand several bankbooks, war savings bonds and war savings stamps that are the property of former inmates.

It is suggested that an effort be made to locate these former inmates and the valuables be returned to their rightful owners if possible.

STATE FARM AT BRIDGEWATER

REPORT No. 2640

State Cash Shortage: A shortage of \$1.00 existed in this account when the cash was balanced on July 20, 1949. On the date of the previous audit this account reflected an overage of \$5.00.

The cash has been either over or short on the opening days of several previous audits and these small cash variances indicate a certain degree of carelessness.

Deficiency Appropriation: It was noted that it will be necessary for this institution under current procedures of the Commission on Administration and Finance to request a deficiency appropriation of \$151.85, as a result of erroneously disbursing advance money belonging to "Other Salaries" instead of advance money belonging to "Services of Non-Employees." While the Commission on Administration and Finance insists that a deficiency exists in the advance money attention is directed to the fact that a balance of \$160.00 was reverted in that appropriation.

Patients' Cash Shortage: A shortage of \$1.79 was noted in this account when the cash was balanced on July 20, 1949. On the date of the previous audit this account reflected an overage of \$6.80.

Also, it was noted that the cash book balance, patients' ledger balance and cash on hand were not in agreement. The respective balances were:

Cash Book	\$8,769 07
Patients' Ledger	8,771 47
Cash on Hand	8,767 28

These variances indicate carelessness.

Inmates' Cash Shortage: A shortage of \$14.59 was noted in this account when the cash was balanced on July 20, 1949. On the date of the previous audit this account reflected an overage of \$63.80.

The cash has been either over or short on the day of many previous audits. This condition has been reported many times without corrective action being taken.

Also in this connection it was found that the cash book balance, inmates' ledger balance and cash on hand were not in agreement. The respective balances were:

Cash Book	\$10,928 09
Inmates' Ledger	10,934 25
Cash on Hand	10,913 50

These variances further indicate that the cash accounts are carelessly handled.

Former Inmates' Funds: It was noted that there is a considerable amount of money belonging to former inmates which should be turned over to the State Treasurer in accordance with Chapter 290 of the Acts of 1945.

Canteen Inventory Shortage: In an earlier section of this report it was noted that on

the date of audit a shortage of \$832.81 in relation to sales of \$31,461.38 existed in comparing the book with the physical inventory. In an effort to determine what caused this variance many tests and checks were made. It was finally determined that in the main, this variance was caused by taking into consideration for inventory purposes a profit of one-half of one cent for each cup of coffee sold whereas it was determined through audit that this coffee was selling at a loss of one-half cent per cup. In a further effort to substantiate the effect of the foregoing on the inventory computation another complete physical inventory was taken on October 31, 1949. At that time, and after considering the possible coffee activities, a net shortage of only \$79.07 in relation to sales of \$9,104.51 was noted. This latter variance of only .87% is more consistent with differences usually noted in connection with inventories at canteens of this type. It is hoped that henceforth the shortages will be held to a minimum.

STATE PRISON

REPORT No. 2706

Maintenance Stores: In this connection the previous audit report stated:

"It has always been the practice at this institution to have inmates handle the stock records, which may well be the reason for the variances. Beginning with September, 1948, the inmates were taken off the stock records and replaced by civilian employees."

It is believed that there has been an improvement in the accuracy of the records. However, it was noted that many ledger accounts have credit balances at the end of certain months due to the fact that bills had not been passed for payment. The records are kept open at the end of the fiscal year until these payments are passed, and the final month of the fiscal year is the only month in which the financial report shows a correct balance for Materials and Supplies Inventory on Hand.

The book value of the items inventoried on this date totalled \$12,769.91, the physical inventory value was \$12,625.53, indicating overages of \$371.25 and shortages of \$515.63.

Four physical inventories were taken by institution personnel during the period covered by the audit. Adjustments of the stock ledger accounts to correct variances were recorded as follows:

<u>Date of Physical Inventory</u>	<u>Physical Value Over Book Value</u>	<u>Physical Value Under Book Value</u>
Nov. 30, 1948	\$334 19	\$284 46
June 30, 1949	608 99	813 23
Sept. 30, 1949*	-	-
Jan. 31, 1950	264 83	472 86

* No Book Adjustments Made

Officers Uniforms Purchased Through Appropriation: Officers uniforms are now purchased by the institution through the maintenance appropriation. An invoice for the purchase of 114 uniforms at a cost of \$4,168.55 was passed for payment July 19, 1949. It is suggested that a stock ledger account be kept for the purpose of control of these uniforms.

Checks Signed in Blank: It was noted that certain bank checks were being signed in anticipation of being used. It is suggested that this practice be discontinued immediately. The possible dangers are obvious.

Inmates Per Capita Cost: Based on the average population for the fiscal year ended June 30, 1949 the gross weekly per capita cost per inmate was \$22.40. This is an increase of approximately \$3.00 per inmate over the previous fiscal year.

Industries - Adjustments to Inventories: Previous audit reports have suggested that all adjustments of inventory records, both raw materials and finished goods, be entered in the general ledger control accounts as separate entries and not as additions to purchases or issues. As this suggestion has not been adopted, attention is again called to it.

Industries - Unfilled Purchase Orders: It was noted that the monthly financial reports for the months of December 1949, January, February and March 1950, showed unfilled purchase orders and cash balances in the Industry Fund as follows:

	<u>Unfilled Purchase Orders</u>	<u>Cash Balance in Fund</u>
Dec. 31, 1949	\$ 80,360 92	\$86,500 60
Jan. 31, 1950	80,041 96	81,141 85
Feb. 28, 1950	62,847 43	54,635 00
Mar. 31, 1950	108,488 66	30,509 91

The Industry Fund is not encumbered when the order is placed as is the case with appropriation accounts. It is suggested that some control or limitation be placed over purchase requisitions so that the Industry Fund will not be placed in the position of not being able to pay its bills promptly, and of losing discounts.

Industries - Heat, Light, and Power: The maintenance section pays the cost of operating the heating and power plant and then charges and bills industry section once a year in advance, the charge being based on the previous year's expenses. On July 30, 1948, the bill rendered to the industries section was as follows:

Total Heat, Light and Power for 1949 Fiscal Year		\$32,434 88
Less:		
Coke	\$1,168 07	
Gas	765 43	
Electricity	225 84	
Water	3,683 75	5,843 09
		<u>\$26,591 79</u>
1/3 charged to Industries		\$ 8,863 93
Engineering Salaries Total of \$17,675.24, of which 1/10 charged to Industries		1,767 52
		<u>\$10,631 45</u>

It is understood that the charge to industries has been on the same basis for many years. It would seem advisable to have it reviewed particularly since certain industries have been transferred to the State Prison Colony at Norfolk, and a new estimate should be made of heat, light and power used by the Industries Section.

Industries - Electricity Purchased: The foundry industry pays the cost of the electricity purchased and then bills the maintenance section an arbitrary monthly charge of \$18.82. This arbitrary charge of \$18.82 has been in effect for some time, and it cannot now be determined on what it was based. The total of the March 1950 bill for electricity was \$2,194.40, so it would appear that the monthly charge of \$18.82 might well be reviewed. The increase in the electric bill is largely due to the changes in process of auto plate manufacture.

Industries - Underwear Industry: The Industry Financial Report of June 30, 1949 showed that for the fiscal year 1949 this industry had a loss of \$7,493.22.

A comparison of operating statements of this Department for the past two fiscal years indicates increased sales of \$11,960.25 for 1949 over 1948. However, the 1949 fiscal year showed a loss of \$3,491.00 more than the 1948 fiscal year. These results are quite inconsistent, and it is suggested that the Comptroller's Bureau be contacted relative to the possibility of reviewing the present system of record keeping in this Department. The figures appearing on the quarterly Goods in Process Inventory Sheets show many unusual differences between the records and actual physical inventories. It is questionable that these goods in process figures which were furnished for the purpose of the book record are of any real value.

Industries - Distribution of Heat, Light, and Power and General Expense: It would appear that it was the plan to distribute these items to the several industries during the current year based on the ratio of sales in the previous year, but apparently the distribution made during the 1949 fiscal year was based on percentages established by the Comptroller's Bureau several years ago.

A table showing the ratio of sales made during the 1948 fiscal year, together with the percentages used in distributing these overhead items during the 1949 fiscal year, follows:

	1948 Sales	Per Cent	Per Cent Used in 1949 Distribution
Foundry	\$ 69,922 50	12%	10%
Metal	421,842 88	73%	50%
Printing	29,278 01	5%	15%
Underwear	58,530 81	10%	25%
Clothing	2,057 07	0%	0%
	<u>\$581,631 27</u>	<u>100%</u>	<u>100%</u>

The heat, light and power charge for the 1949 fiscal year amounted to \$10,631.45 and General Expense was \$16,060.48, or a total of \$26,691.93; and as the percentages used in distribution varied from the percentages shown in the previous table for the ratio of sales in the 1948 fiscal year, the profit in each industry was increased or decreased accordingly. In the case of the Underwear Industry, which showed a loss in the 1949 fiscal year of \$7,493.33, the charge for General Expense and Heat, Light, and Power was \$6,683.00, whereas had the correct percentages been used it would have been \$2,669.19, or \$4,013.81 less.

The following percentages were approved by the Supervisor of Industries, September 15, 1949, as the basis for distributing the General Expense costs and the Heat, Light and Power expenses to the five departments:

Metal Department	40%
Printing Department	15%
Foundry Department	10%
Underwear Department	25%
Brush Department	10%
TOTAL	<u>100%</u>

The above percentages will be used pending review by the Comptroller's Bureau.

Industries - Underwear Industry - Items Sold Below Cost: In this connection the previous audit report stated:

"A review of the records of this industry disclosed that many items were sold below cost during the 1949 fiscal year. A list of such items follows:

SCHEDULE OF UNDERWEAR ITEMS SOLD BELOW COST DURING THE FISCAL YEAR ENDED JUNE 30, 1948

Description of Article	Units	Cost Value	Sales Price	Loss
Under-Shirts	Style #34 18	\$ 228 78	\$ 210 00	(\$ 18 78)
Athletic Shirts	Style #71 1500 1/6	8,838 28	7,489 83	(1,348 45)
*Under-Shirts	Style #74 209 5/6	4,280 66	2,962 00	(1,318 66)
Drawers	Style #71 235 1/6	2,288 26	1,542 71	(745 55)
*Drawers	Style #74 153 3/4	3,545 46	2,162 00	(1,383 46)
**Vests	Style #66 686 1/2	3,451 71	3,360 80	(90 91)
Vests - Bleached	Style #66 97 1/2	550 29	531 43	(18 86)
**Vests	Style #68 53	276 90	254 75	(22 15)
Bloomers	Style #67 275	1,858 10	1,472 50	(385 60)
**Union Suits	Style #77 16	245 03	232 00	(13 03)
Mattress Pads				
36 x 36	5	123 84	81 00	(42 84)
Mattress Pads				
36 x 76	6 1/4	262 93	213 86	(49 07)
Mattress Pads -				
Miscellaneous	2 7/12	108 44	78 80	(29 64)
Toques (Stocking				
Caps)	67	940 60	760 80	(179 80)
TOTALS		<u>\$26,999 28</u>	<u>\$21,352 48</u>	<u>(5,646 80)</u>

* On October 1, 1948 the sales price of Under-Shirts and Drawers - Style #74

were increased from \$14.00 to \$15.00 per dozen for sizes 34 to 42, from \$14.50 to \$16.00 for sizes 44 to 46, and from \$15.00 to \$17.00 for sizes 48 to 50. The increased sales prices are still far below the costs of production.

** On October 1, 1948 the sales price of the Vests and Union Suits were increased sufficiently to meet the costs of production."

An examination of the sales prices of some of the items listed on the foregoing schedule indicated they were still below the cost of production.

In this connection the Supervisor of Industries stated that the Purchasing Bureau has purchased a quantity of Army Surplus underwear for State departments and agencies, and that it was necessary to decrease the selling prices of many underwear items in order to dispose of manufactured articles on hand.

Printing Department: It was noted that shop order No. 14908 cost \$511.57 to complete. A Standard Invoice dated September 2, 1949 charged the Metropolitan District Commission \$46.50 for this order which was for 10 M sheets of encumbrance cards. The cost of this order exceeded the selling price by \$465.07. The records show that the Printing Department operated at a loss of \$1,445.04 for this particular month while the total sales for that month totaled only \$273.30.

Printing Department - Adjustments to Stock Ledger Accounts: It was noted that several adjustments were necessary to bring stock book balances of the one cent and two cent post cards into agreement with the physical inventories taken during the fiscal year ended June 30, 1949. No record of spoilage and reimbursement for spoilage of post cards appeared on the stock ledger accounts although it is understood that there should be a normal number damaged during the process of printing. It is understood that the United States Post Office Department reimbursement for damaged post cards is on a three to four basis.

It is suggested that a complete detailed record of all printing orders be turned over to the stock ledger section, including the purchase and issue of all stock, together with spoilage and reimbursement for post cards damaged.

Industries - Overhead - Underwear Industry: The following comment appeared in the previous audit report:

"An examination of the stock records indicated that regular undershirts and Army undershirts bearing the same stock number were being kept in the same stock account, notwithstanding the fact that thirteen different factory operations were required for the manufacture of a regular undershirt and but seven factory operations for the Army undershirt. Inasmuch as more indirect material, machinery, and floor space is used for the manufacture of a first garment than for the second, it would appear that the regular undershirt should be charged with a greater portion of the overhead expense. However, at present, both garments are charged with the same percentage of overhead expense. It is suggested that the overhead charged to the above items be corrected and separate stock records be kept for Army and regular undershirts."

The same situation existed on April 3, 1950. The Supervisor of Industries states that limited personnel and prison conditions do not permit the extension of cost recording to include such items.

Industries - Metal Industry - Adjustments: The previous audit report contained the following:

"In reviewing the adjustments in Finished Goods for this industry during the fiscal year ended June 30, 1948, it was noted that on three occasions shortage adjustments of values were made as follows:

Dec. 31, 1947	\$1,000 00
Mar. 31, 1948	1,000 00
June 30, 1948	500 00
	<u>\$2,500 00</u>

"As no units appeared against the money values of these adjustments

inquiry was made, and it was understood that the Finished Goods account, 25-1 Miscellaneous Metal, was carried on the June 30, 1947 inventory at \$4,019.77, whereas apparently it should have been listed as \$838.47 or an overstatement of \$3,181.30. The three arbitrary shortage adjustments totaling \$2,500.00 were made to bring the book inventory somewhere near the physical so that on June 30, 1948 this particular item was overstated by \$720.64. These adjustments made during the 1948 fiscal year had the effect of incorrectly reducing the profit of that year as shown in the State Prison's annual industry financial report by \$2,500.00. As these adjustments were made to correct errors in a prior period, the charge should have been made to Surplus."

As an adjustment for the foregoing has not yet been passed through the "Supplies" account, attention is again called to it.

Industries - Shoe Repair Shop: Included in the Metal Industry is a small shoe repair shop operated primarily to repair the inmates' shoes for no charge, and apparently employees are also allowed to have their shoes repaired there for a fee. The financial transactions are included with those of the Metal Industry and no effort is made to segregate them.

The accounts were analyzed and the following statement was prepared:

Receipts		\$1,095 01
Cost of Operating:		
Inventory July 1, 1948	\$ 466 43	
Purchases	898 30	
	<u>\$1,364 73</u>	
Inventory June 30, 1949	532 77	
	<u>\$831 96</u>	
Overhead Added	714 92	1,546 88
Excess of Cost of Operating		<u>\$451 87</u>

It is suggested that the financial records of the Shoe Repair Shop be shown separately in the monthly financial reports as prepared for State Prison Industries. The Shoe Repair Shop has been located within the Metal Department.

Machinery and Equipment: During the period covered by the audit, machinery and equipment payments totaled \$98,618.38, and were charged to the various departments as follows:

Metal	\$86,815 85
Foundry	7,803 99
Underwear	2,769 95
Brush	1,199 59
Printing	29 00
	<u>\$98,618 38</u>

Included in the total charged to Metal Department is \$70,239.82 actually purchased within the previous audit period but actually paid for during the current audit period.

Industries - State Farm Industrial Fund: On the date of audit there was a balance of \$21,336.97 in this fund. Examination indicated that this balance has been on the books of the State Prison since June 30, 1945. It represents the profits on war contracts performed by inmates of the State Farm, Bridgewater, during the period September 1, 1944 to June 30, 1945. The purchases and sales of material on the above war contracts were recorded in the State Farm Industrial Fund account on the books of the Industries Section of the State Prison. This fund apparently is not the property of the State Prison nor the State Farm which had no Industries Section during this particular period. Since the above fund represents War Revenue and is serving no useful purpose on the books of the State Prison, it is again recommended that this fund be closed out into General Revenue.

Industries - Accounts Receivable: Included in the delinquent accounts receivable is one for \$305.00 representing a sale of Foundry Department products to an outside contracting firm. A verification notice sent to this firm in connection with the current exam-

ination was not returned. It is suggested that the account be turned over to the Attorney General for action.

Sale of Scrap Steel- Shop Order 15801: The following memo from the Supervisor of Industries relates to the variances in amounts of the contract and the actual sale of scrap steel, and also to the method of handling the refund of cash to the contractor:

April 27, 1950

From: Supervisor of Industries

Subject: Disposal of scrap steel covered by Shop Order 15801.

Previous to September 12th, we had communicated with the State Purchasing Bureau requesting them to dispose of some scrap steel which accumulated in our foundry.

No immediate action had been taken on this and on September 12th, we wrote Major Cronin a letter calling this omission to his attention and requesting action.

Through an error in information available to me, I have inadvisedly estimated the steel accumulation as 60 tons. This proved to be an overestimate which later was involved in this transaction and the amount delivered was considerably less than 60 tons.

For your information, I am listing the deliveries as they accrued.

October 10th	2150 Lbs.	\$14.20
October 5th	10100 "	66.71
October 13th	2600 "	17.17

These deliveries cleaned up most of the scrap steel that was of any value for reclaiming purposes and there remains a considerable quantity of sheet scrap to which a considerable quantity of wood was attached.

There was also considerable quantities of miscellaneous parts in small kegs and boxes which was badly mixed with the dirt and refuse.

The ... company refused to take this as they said they were being sold wood and not steel.

We agreed that they would load this steel and weigh it and we would estimate the tare. This we did to the best of our knowledge and found it to be approximately 1/2 the entire load.

On the basis of this we billed them for the delivery on October 13th at the rate of 1250 Lbs.

Due to the awarding of the contract to the company by Major Cronin the figure of the estimate weight available for disposal was given as 60 tons as stated above and a certified check was furnished by the ... company.

This, of course, was in considerable excess of the amount delivered.

The original certified check was for the amount of \$792.60. The total billing against this delivery shop order was for \$106.34 but as the ... company owes us on the previous order \$63.79, we refunded them only \$622.47 to clear this amount.

The question of whether this refund should have been made through this institution or through the State Treasurer's Office may have been caused by the misinterpretation in the instructions.

Usually these small refunds on the disposal of scrap have been handled at this institution and do not involve a great deal of money. I think this is the only transaction in which such a large refund has been necessary. I trust this explanation is satisfactory to you.

Very truly yours,

MPY:kac

SUPERVISOR OF INDUSTRIES

Unfilled and Incomplete Sales Orders: Thirty-one orders dated from July 1948 to December 31, 1949 were still unfilled or only partly filled on April 3, 1950. In addition 182 orders dated in January, February and March 1950 were also listed as unfilled or partly filled. It is believed that many of the older orders might have been canceled, but were not cleared from the records.

It is suggested that the progress of orders be followed systematically. Orders upon which no further shipment will be made should be cleared from the records as soon as this fact is determined.

Brush Department: This Department was transferred from Norfolk Prison Colony

Industries to State Prison Industries on November 1, 1948. The shop manager and five inmates were transferred at that time in order to set up the machines and the working units of the shop.

At the date of this audit, however, 35 inmates and the shop manager, a civilian, were assigned to this shop. The records further indicate an average daily shop production of 50 brushes.

Inmates' Personal Funds - Cash: It was noted that cash receipts were not being deposited exactly as they are received. Part of the receipts, checks, post office money orders, are deposited as received but the currency was deposited after accumulation. The reason given for withholding cash was the necessity of having to pay inmates with currency upon their release.

It is believed that release dates of inmates are known sufficiently in advance, so that a check may be drawn for cash to accommodate them. It is suggested, therefore, that all cash be entered in the cash receipts book when received, and that all receipts be deposited upon entry. Cash should be withdrawn from the account by check in the exact amount, or amounts, due an inmate, or inmates, to be released.

In checking the inmates personal fund receipts it was indicated that inmates receipts from visitors, and from sales had not been segregated throughout the entire period covered by the audit. The cash book installed by the Comptroller's Bureau for recording this type of cash has a column for each category. It is suggested that receipts from visitors and by mail be kept separate from those receipts from sales of articles produced personally by inmates.

Inmates Wage Funds - Cash Receipts: With these accounts it is also suggested that all cash receipts be entered as received and deposited in their entirety. If currency is needed for payment to an inmate to be released, a check for the amount, or amounts, due should be cashed prior to the date of release.

Inmates Personal and Wage Fund Accounts: Five inactive balances have been carried in the trial balances of these fund accounts for several years. The amounts should have been corrected before, and it is again suggested that the necessary adjustments be made and the balances removed from the records. The five items are as follows:

Inmates Personal Fund Account	\$3 50 deficit
Inmates Wage Fund Account - Savings	4 00 deficit
Inmates Wage Fund Account - Savings	3 00 deficit
Inmates Wage Fund Account - Dependents	7 00 deficit
Inmates Wage Fund Account - Dependents	2 64 balance

Canteen Fund: The canteen was officially opened for business on June 14, 1946. Tickets in the denominations of \$.50, \$1.50, \$3.00 and \$5.00 are sold to inmates and officers. The tickets are printed in duplicate, and when sold one section goes to the inmate and the other to the canteen caretaker. When a sale is made, both parts of the ticket are placed together and punched simultaneously for the amount of the purchase.

Due to failure to have figures of \$.01 and \$.02 printed on the tickets, a few articles are sold at less than cost by punching the tickets at the five cents next below the cost price.

The previous audit report contained the following comment:

"Some of the purchases at the canteen by officers and civilian employees are not made by ticket, but currency is paid to the officer in charge of the canteen who turns the money over to the chief clerk periodically. On date of audit receipts totaling \$26.24 were in the custody of the officer and not turned over to the chief clerk. It is suggested that the amount of currency retained by the officer be kept to a minimum."

In this connection it was noted that all purchases were now being made by ticket. The total sales for the audit period were \$69,980.00. Shortages for the period totaled \$190.44, and overages \$35.07, a net shortage of \$155.37, or .0025 percent of the total sales.

Payments account of benefits totaled \$4,433.56 for the period, as follows:

Ice Cream	\$1,041 40
Cake	711 00
Moving Pictures, Operator, Repairs, Transfer of Films	645 90

Periodicals for Library		\$ 621 20
Radio Supplies and Expenses		571 39
Christmas Decorations:		
1948	\$121 95	
1949	<u>159 49</u>	281 44
Musical Instruments and Supplies		263 83
Sports Equipment		183 83
Printing		88 80
Palm Sunday		16 50
Miscellaneous Supplies		<u>8 27</u>
		<u>\$4,433 56</u>

STATE PRISON COLONY

REPORT No. 2699

Maintenance Section

Cash Discount Lost: Of the invoices examined, it was noted that a cash discount amounting to \$69.15, on an invoice dated July 3, 1948, was lost because the account was not paid promptly. Although the account was scheduled for payment by the institution within three days of the receipt of the invoice, actual payment was not made until after the expiration of the discount date. Several other smaller losses of discounts were also noted.

Industries Section

Adjustments: A decrease in the amount of inventory adjustments was again noted for the fiscal year 1949. The total amount of these adjustments for 1949 was \$1,039.25 as compared with \$1,225.66 for 1948, a reduction of \$186.41.

Inventories: The ratio of inventories to sales shows a substantial improvement over the previous year. The ratio for 1949 is 61.29% as compared with 74.82% for 1948. This ratio is still very high and an effort should be made to reduce it further.

Profit from Operation: The over-all profit for the fiscal year 1949 was \$71,406.23 as compared with \$68,188.06 for 1948. Although the total sales show a substantial increase and the amount of profit is higher, the percentage of profit has fallen off by 3.46%. The concrete and metal divisions have reported very satisfactory gains, whereas, the shoe division has reported a substantial loss for the year which is due to the excessively high cost of raw material and to a certain amount of sales resistance.

Fire: It was noted that the Industries suffered a loss by fire and water of \$1,746.82. The loss in the tobacco division was \$1,695.25 and \$51.57 in the mattress division. This fire occurred on March 18, 1950 and the cause has not yet been determined.

DEPARTMENT OF EDUCATION

REPORT No. 2727

Bookkeeping Records: As of audit date, and during the progress of the audit, the general ledger had not been posted for the 1950 fiscal year with the following accounts excepted: cash, accounts receivable, and funds transferred to State Treasurer. No financial reports had been compiled for the 1950 fiscal year.

Income: A previous audit report stated that accounting for income was handled by three different methods, the ticket system, simple receipts, and machine billings known as the fan-fold system. The ticket system is no longer used but the other two methods remain in effect. The simple receipts are given out at the Department office only when a book is to be paid for and later shipped to the student. These simple receipts were checked 100% to a duplicate fan-fold receipt. The fan-fold receipt and the simple receipt have been cross indexed and under the conditions peculiar to their use were easily compared and reconciled.

Receipt Books: Many partially filled receipt books (CB-23) were found to be on hand which the department apparently did not intend to use. It was suggested that these books be used in full and it is understood that this will be done.

Accounts Receivable: It was noted in taking off a trial balance of this account that the department is still carrying a great number of accounts prior to 1948 on which no activity has been evident. It is suggested that a list of these apparently uncollectible accounts be given to the Attorney General's office for disposition. There were no charge-offs by the Attorney General during the period under audit. There were, however, a

number of cancellations made of board charges already on the receivable ledger. The total amount was \$517.84 for the audit period.

Federal Funds: Expenditures for travel paid from Federal Funds were checked in some detail for the fiscal year 1949. This travel consisted mostly of auto and train travel. Many instances were noted where two people visited the same city on the same day, one travelling by auto and the other by train. Inasmuch as the travel started from Boston or another city in which both persons lived, it would seem to indicate a lack of planning. Examination of the travel vouchers indicated that failure to use public transportation and duplication of trips by various people caused considerable more expense than would otherwise have been incurred.

The Comptroller's regulations state that in every case "the means of transportation least expensive to the Commonwealth shall be used." It is, therefore, recommended that the department endeavor to have the Comptroller's instructions followed.

Division of Public Libraries: Chapter 320, Acts of 1948 provides that a "Certificate of Librarianship" may be issued as "Professional Librarian" and "Subprofessional Librarian" upon the payment of \$3.00 fee after the applicant has met the necessary requirements of the Act.

Receipts from this source commencing in December 1949 and amounting to \$1,956.06 through audit date of May 22, 1950 were reconciled with the income as shown on the Comptroller's records. This income was proved to the number of certificates issued together with a pending list of 28 applications.

The receipts mailed for cash received are merely mimeographed slips.

The certificates are not pre-numbered by the printer. The fee does not appear thereon and the certificate number is typed on the reverse side after approval by the Board.

Original certificate fee is \$3.00. No provision has yet been made for renewal fees or duplicates.

It is recommended that the Comptroller issue the necessary instructions as regards pre-numbering and amount of fee which should be shown on the certificate.

BRADFORD DURFEE TEXTILE INSTITUTE

REPORT No. 2677

Accounts Receivable: The previous audit report stated:

"The balance of \$723.06 due from the City of Fall River for the use of the so-called Continuation School, mentioned in several previous audit reports, is still outstanding, and it is again suggested that it be referred to the Attorney General for disposition."

In accordance with this suggestion, this account was referred to the Attorney General for disposition. Of this amount, the Attorney General authorized the charge-off of \$629.04. The balance of \$94.02 was deducted by the State Treasurer from distribution of taxes to Fall River in the November 20th settlement.

Inventory of Students' Supplies: The previous audit report stated:

"An inventory of the Students' Supplies was taken on the date of this audit. An attempt to reconcile this inventory revealed that the Purchase Journal was inaccurate and incomplete, and that there was a difference of several hundreds of dollars. It was found that numerous invoices had been entered twice and others had been omitted.

"It is therefore suggested that the entire transactions relating to students' supplies for the current period be reviewed for the purpose of establishing the actual difference."

In accordance with this suggestion the records were brought up to date and the reconciliation of the inventory taken by the Treasurer's Office resulted in a shortage of \$46.45. This shortage covers a period of approximately two years.

Special Appropriations: The previous audit report also stated:

"The balance in the Special Appropriations accounts in the general ledger are not correct due to improper bookkeeping. The balances reported in the financial reports do not agree with those in the general ledger.

"It is suggested that the Comptroller's Bureau review all bookkeeping entries relating to the special appropriations for the purpose of straightening out these accounts and also give instructions in the proper handling. These accounts were not reconciled with the Comptroller's accounts and expenditures were not checked."

In connection with the current examination it was noted that these accounts have been corrected and are now in agreement.

Accounts Receivable Ledger: It was stated in previous audit reports:

"It is the practice at this institution to use several ledgers and memorandum books to record accounts receivable. Due to this practice and the method of entering, much difficulty was experienced in analyzing the accounts receivable. It is again suggested that the Comptroller's Bureau be requested to install the prescribed accounts receivable ledger and to give instructions in its proper use.

"Due to the methods of handling the accounts receivable at this institution, much difficulty was again experienced and time consumed in an attempt to analyze the income. The verification of this income is not wholly satisfactory. The present records are inadequate and are different from those prescribed by the Comptroller's Bureau. Trial balances of the accounts receivable had not been taken during the period under audit.

"It was found that charges amounting to approximately \$850.00 had been omitted. The general ledger control account for March 31, 1949 shows a balance of \$26,151.57, whereas a list of the accounts receivable outstanding as of March 31, 1949, which was taken subsequent to this audit date totals \$27,008.11, a net difference of \$856.54.

"It is imperative that all records and methods of handling income be reviewed immediately and that the correct balance of the accounts receivable be established and reflected in the records."

In accordance with this suggestion corrective action has been taken and proper adjustments have been made.

Sales Slips (Institute Bookstore): It was noted that standard sales slips are now being used to record veterans' charges for students' supplies.

Tuition: The previous audit report stated:

"By vote of the Board of Trustees on April 10, 1947, the tuition to all students entering the Institute for the first time after September 1, 1947 will be \$50.00 per semester for residents of Massachusetts and \$125.00 per semester for non-residents, including foreign students.

"The vote of the Board of Trustees established the tuition fee for foreign students for this school at \$250.00 per year, whereas at the New Bedford Textile Institute, for identical courses, the tuition fee for foreign students is \$500.00 per year."

It was noted that the Board of Trustees on July 11, 1949 voted to increase the tuition for all foreign students to \$250.00 per semester. This rate is effective for new students entering in September 1949 and for students already enrolled and becomes effective September 1950.

Deposits: By vote of the Board of Trustees on April 10, 1947, beginning September 1, 1947 the deposits for all students taking the chemistry course was set at \$15.00 for the first year and \$25.00 a year thereafter. Other students using the shop or laboratory facilities are now required to deposit \$10.00 at the beginning of each year. After deducting for any breakage, the balance will be refunded.

Trust Funds: Section 43 of Chapter 74 of the Tercentenary Edition of the General Laws, as amended by Chapter 257 of the Acts of 1946, reads:

"The Board of trustees of each of said institutes shall be a corporation for the purpose of taking by gift, bequest, or devise any real or personal property."

As has been stated in previous audit reports, the Board of Trustees voted on November 4, 1932 to transfer the management of all trust funds entrusted to its care to the B. M. C. Durfee Trust Company.

The agreement in effect allows the trust company to retain the custody of the securities, collect and distribute the income, subject, however, to the direction and vote of the trustees. A nominal charge is made by the trust company for these services.

Puerto Rico Industrial Development Fund: This fund was established by the Puerto Rico Development Company to aid students from Puerto Rico attending this Institute. The principal of this Institute is Trustee of the fund.

DIVISION OF THE BLIND

REPORT No. 2632

Lowell Shop for the Blind: During the progress of the audit it was found that there were variances in the income accounts of the Lowell Shop. In this connection it was noticed that the Clerk acknowledged to have been responsible for the variances resigned as of September 23, 1949. Income totaling \$659.50, representing practically all the differences was turned over to the Division by the former clerk's family on October 26, 1949. It is understood that the balance of the discrepancy in the amount of \$50.02 will be paid by them within a short time.

Accounts Receivable - Overdue Accounts: There are outstanding overdue accounts receivable amounting to \$3,090.64 on the date of audit. These accounts should be reviewed and then turned over to the Attorney General for collection. These accounts which follow by year of charge should also be transferred to the "Accounts Receivable Suspense Account":

	1948	1947	1946	1945 and prior
Cambridge Industries	\$ 45 00	\$349 35	\$867 24	\$528 49
Piano and Mattress	562 54	58 50	35 50	3 50
Woolson House	46 10	122 40	72 60	43 46
Pittsfield Shop	54 90	94 25	12 40	75 55
Worcester Shop	27 60	10 00	6 60	28 45
Fall River Shop	-	2 75	-	-
Salesroom	-	21 40	1 56	20 50
	<u>\$736 14</u>	<u>\$658 65</u>	<u>\$995 90</u>	<u>\$699 95</u>

Selling Prices of Manufactured Articles: The report of the previous audit recommended that if possible a list of the selling prices of all articles handled by the division be approved by the Director and be kept on file in the main office. It is understood that efforts are now being made to standardize prices and establish such an approved list.

Finished Goods Stock Ledger Control - Cambridge Industries: In several of the preceding audit reports it has been recommended that the Comptroller's Bureau set up a control account for finished goods in the Cambridge Industries. As this suggestion failed to receive the Comptroller's approval, attention is again called to it.

Storeroom for Raw Materials and Finished Goods - Cambridge Industries: A recommendation for a storeroom for raw materials and finished goods made in many previous audit reports has been followed and is now in operation.

Materials and Supplies Account - General Ledger: It was noted that the materials and supplies account formerly carried in the General Ledger has been discontinued in accordance with instructions from the Comptroller's Bureau.

Bank Accounts - General: It was noted that the local shop bank accounts are still in the name of Helen F. O'Leary, a former principal bookkeeper. It is advised that these accounts be reopened in the name of the present principal bookkeeper.

Federal Participation - General Administration: In accordance with the approved plan of Federal participation in the expenses for "General Administration, Aid to the Blind", one half of 5% of the salaries of the personnel in the bookkeeping department is reimbursed by the Federal Government. Of the expenses for rent and light 18.68% is paid by the Federal Government. One half of 50% of the telephone expenses is also re-

imbursed by the Federal Agency involved. The salaries of other members of the personnel are reimbursed on the basis of 50% of the following percentages:

Director	20%
Secretary to the Director	20%
Telephone Operator	50%
Senior Workers with the Blind (6)	100%
Guides to Blind Workers (3)	100%
Senior Statistical Clerk	100%
Junior Clerk and Stenographer (2)	100%
Junior Clerk and Typist	10%
Worker with the Blind	15%

Jean M. LeBrun Fund: Income from the investment of this fund was \$50.00 for the audit period and expenses totaled \$330.00 leaving a balance in the fund of \$30.49 on July 12, 1949. This fund is administered by the Director for higher education of blind students.

Michael F. McCarthy Fund - Pittsfield Shop Fund: The Pittsfield Shop is a beneficiary under the will of Michael F. McCarthy. The Attorney General has ruled that the income derived from this source must be used for the benefit of the Pittsfield Shop. Income from the fund was \$800.00 for the audit period and expenditures totaled \$138.81 leaving a balance of \$4,145.15 in the account as of the date of audit.

LOWELL TEXTILE INSTITUTE

REPORT NO. 2646

Accounts Receivable: It was noted that accounts receivable due from the Veterans' Administration are not reflected in the accounts receivable control balance.

The amounts due from the Veterans' Administration for the first semester of 1948-1949 totaled \$116,925.05.

Bookkeeping: Charges for tuition are entered in the accounts receivable account at the time payment is made and therefore this folio does not reflect outstanding accounts receivable due to the school.

It was noted that no accounts are kept in the general ledger for individual special appropriations.

Tuition Costs: The institution has compiled figures showing that the cost of instruction of each student is \$421.50 per year. It is therefore difficult to understand why 200 out-of-state students are required to pay only \$250.00 per year while the taxpayers of this State are forced to pay the difference. On this basis, it cost the taxpayers of this State approximately \$34,300.00 for the education of students from other states during the past school year.

Athletic Fund: It was noted that the former bursar of the school who is not bonded is still treasurer of the athletic fund, and that the present bursar acts only as a collector from the students of their deposits. The present athletic fund treasurer receives what the bursar turns over to him, but he obviously cannot be certain that everything is being accounted for. Unpaid accounts are not reflected in the athletic fund records. It is suggested that all charges and credits to the athletic fund pass through the accounts receivable fund account in order that all aspects of the accounts may be clearly followed.

Registration Fee: There is now a registration fee of \$1.00 for the evening school students, beginning with the fall term of 1949.

Fees for Day Students: The students starting with the 1949 fall term of the Institute are required to pay a Student Activity Fee in the amount of \$25.00. This fee replaces individual fees formerly charged, as follows:

Athletic Fees	\$15 00
Publication	7 00
Student Council Fee	3 00
	<u>\$25 00</u>

Miscellaneous Income: The previous audit report stated:

"Income from the Coca-Cola vending machines and the Canteen vending machines is contributed to the Library Fund for the purpose of developing the library. This practice is questioned and it is suggested that the Comptroller furnish instructions for the future disposition of this income."

It was noted that these machines were removed on October 1, 1948.

Lowell Textile Institute Building Association: This association was formed for the purpose of constructing, equipping and maintaining buildings for dormitories and other uses connected with the Lowell Textile Institute, pursuant to Chapter 428 of the Acts of 1946. This association was organized on June 24, 1946 and held its first meeting on that date. The by-laws were enacted and the following original officers were elected.

President	Samuel Pinanski
Vice-President	Roland E. Derby
Vice-President	Albert J. Gilet
Vice-President	Carlton J. Lombard
Treasurer	E. Perkins McGuire
Assistant Treasurer	Harold T. Godfrey
Clerk	Henry L. Mason, Jr.

Construction of the first dormitory, called the Smith Dormitory was started on March 18, 1947 and was opened in September 1948. The construction of a second dormitory, called Eames Dormitory is completed and will be occupied in the fall of 1949.

The Eames dormitory was authorized by Chapter 439 of the Acts of 1947.

Library Association: This association was organized in August 1947 for the purpose of assisting in the development and maintenance of the institution library. It is planned to acquire by gift, purchase or otherwise, money and real and personal property of any description for the above-mentioned purpose. This account was not examined at this time as the accounts are handled by a group of the graduates.

Joseph P. Kennedy Jr. Scholarship Fund: Honorable Joseph P. Kennedy started this fund with a gift of \$1,200.00 for the creation of a fund in memory of his son who was killed in World War II.

Salary Augmentation: It was noted that certain members of the faculty were receiving direct grants from private sources to augment salaries paid by the Commonwealth. These payments have been made under a plan for extra compensation to faculty members, which was apparently approved by the Chairman of the Commission on Administration and Finance on September 29, 1947. Despite this approval, the propriety of any State employee receiving private subsidy from any source in the performance of his assigned duties is seriously questioned, and it is recommended that the opinion of the Attorney General be sought.

The plan under which these subsidies have been made, as approved by the Chairman of the Commission on Administration and Finance, states in part:

- 2) Awards may be made to Faculty Members in amounts not to exceed the maximum salaries of their respective classifications as established by the Division of Personnel

It was noted that several employees of the Institute are receiving subsidies which bring their salaries above the maximum salaries of their respective classification as established by the Division of Personnel. They are:

Title	State Salary	Private Subsidy	Special Services	Total	Established Maximum	Excess Received
President	\$7,200 00	\$2,000 00	-	\$ 9,200 00	\$8,160 00	\$1,040 00
Dept. Head	6,000 00	300 00	-	6,300 00	6,240 00	60 00
Asst. Prof.	3,780 00	900 00	\$ 273 00	4,953 00	4,680 00	273 00
Instructor	3,300 00	300 00	-	3,600 00	3,540 00	60 00
Asst. Prof.	3,780 00	-	1,257 00	5,037 00	4,680 00	357 00
Assoc. Prof.	5,040 00	-	8,808 00	13,848 00	5,520 00	8,328 00
Asst. Prof.	4,680 00	-	195 35	4,875 35	4,680 00	195 35
Asst. Prof.	4,680 00	-	255 00	4,935 00	4,680 00	255 00
Instructor	3,060 00	-	1,615 00	4,675 00	3,540 00	1,135 00

Items listed as Special Services represent payments made by private sources for special work performed by employees of the Institute. It is understood that the major portion of this work is done on State property and State equipment is used. While the Commonwealth receives some income from this source, it is but a minor fraction of the amount that these State employees have received. For the period covered by this audit a total of \$18,274.20 was received from this source, of which employees received \$15,393.00, while the Commonwealth received only \$2,881.20.

It is recommended that the Attorney General rule on the propriety of these payments to employees, and if they are approved, that the Comptroller's Bureau provide standards to establish the proper share of such income that is due the Commonwealth.

Federal Research Project: This project provides for a study to improve the cotton warp yarns in carpets. The amount of \$71,500.00 was made available by the Research and Marketing Act of Congress through the Department of Agriculture to the Commonwealth of Massachusetts.

This study required special equipment and a special professor, a secretary and two instructors for the experimental station, and it is estimated that it will take three years to complete it.

Laundry Contract: A contract was entered into by the school with a local laundry on a commission basis, as follows:

"The contractor shall make payments monthly to the Institute in the amount of 20% of the total income from dry cleaning, 10% of total income from wet laundry, 6% of the total income from laundry of shirts and 15% of the total income from gross sales in men's store. Payments shall be made on the first day of each month following. Another check will be made payable to Bursar Lowell Textile Institute, Lowell, Massachusetts."

As far as can be ascertained the contractor has never kept adequate records to reflect his total income. The payments were not sent to the Bursar on the first day of the following month. The first two payments were sent in for two months business and the final payment was not received until several months after the expiration of the contract.

This contract has not been renewed and negotiations are in progress with another local laundry for this concession.

Cafeteria Contract: A concessionaires agreement was made the First Day of September 1948 by and between the Trustees of the Lowell Textile Institute, Lowell, Massachusetts and the Institute Cafeteria of Lowell, Massachusetts, as follows:

"That for a period of 12 months from the date above written, unless sooner terminated or revoked, The Institute Grants to the Concessionaire, a concession to operate, One Cafeteria Style Dining Hall containing approximately 4594 square feet in Dormitory 1. The Institute will furnish reasonable heat for the space occupied during those months it is customary to furnish heat in such buildings and the following additional utilities: light and electrical power, steam for food processing maintenance and repair, ash and trash disposal.

"The Institute will furnish and the Concessionaire maintain all fixed equipment used by the Concessionaire in the performance of this contract and make reasonable replacement as necessary.

"The Concessionaire in consideration of this grant and the services and functions provided by the Institute undertakes and agrees as follows:

"To conduct the business of operating the above premises for the feeding of all persons authorized by the Institute from the above date to termination

"To furnish, install and maintain at his expense all special fixtures furnished by him and furnish at his expense all supplies, merchandise, material and labor necessary

"To submit to the President of the Institute periodically a schedule of prices, such schedule may from time to time be revised by mutual consent

"To make no alterations and to erect no signs without authority of the Institute in writing

"To keep the concession open for business each day between such hours as may be prescribed by the Institute

"To keep the occupied premise in a neat and sanitary condition, etc.

"The Concessionaire shall make monthly payments to the Institute in the amount of 10% of the Gross Income of the Cafeteria. Payment shall be made on the first day of each month following, and checks shall be made payable to Bursar, Lowell Textile Institute, Lowell, Massachusetts

"To permit the Bursar of the Institute to make daily readings of cash register and tapes to ascertain daily cash income."

This Agreement became effective on the First Day of September 1948 and was extended for an additional period of twelve months from September 1, 1949.

The total amount received from the food concession from September 1948 to June 1949 was \$5,764.13. This income was verified to original sources.

MASSACHUSETTS MARITIME ACADEMY

REPORT No. 2728

Bookkeeping - State: Prior to the current audit period the records of this academy had not lent themselves to audit and a great deal of time had been expended in efforts to make a complete and detailed examination.

On the date of audit, however, conditions in general had been improved. The standard State records are now installed and were maintained currently. Only a few minor inaccuracies were noted and were called to the attention of the Academy staff for correction.

Bookkeeping - Non-State Fund: In connection with the examination of Non-State Funds a little difficulty was encountered because of a lack of detailed records. It is understood that this condition will soon be corrected.

Secretary's Office: It was noted that the Secretary's Office in Boston is now handling only the financial records of the Board of Commissioners.

Advance Money: It was noted that the 1948 and 1949 advances have now been properly cleared. The net shortage of \$70.78 reported in the previous audit report in the 1948 advance money was paid by the former superintendent personally in order to expedite clearance of the item.

Uncollected Income: As of the date of the current audit unpaid service fees totalled \$254.00. On June 1, 1949 these unpaid service fees totalled \$1,011.78. It is understood that an effort is now being made to collect these overdue fees.

Income Remitted to State Treasurer: The previous audit report stated that income was not being remitted promptly, to the State Treasurer. With the exception of \$750.00 in forfeited graduation deposits and \$21.00 in service fees, which was still on hand, all income has been promptly remitted to the State Treasurer and Receiver General.

Accounts Receivable: It was noted that charges are not made to the Accounts Receivable Account until payments are received. This practice is contrary to instructions contained in the Comptroller's Accounting Manual and should be corrected.

Forfeited Graduation Deposits: On June 7, 1950 the date of the current audit, there was \$750.00 on hand on account of forfeited graduation deposits. Of this amount \$550.00 was on hand on the date of the previous audit. This income should be transferred to the State Treasurer as soon as possible in accordance with Section 27 of Chapter 30 of the General Laws.

Clothing Inventory: An inventory of the clothing indicated a shortage of \$285.49 which is equivalent to 1.35% on sales. These sales include obsolete merchandise which was valued at regular selling price.

This clothing inventory was not checked to the stock ledger cards kept in the steward's department on the ship, because they were not currently posted. The explanation offered was that the training ship had just returned from its annual cruise.

Obsolete Items in Midshipmen's Clothing Inventory: The physical inventory on June 7, 1950 amounted to \$2,646.98 at selling price. Although \$3,275.10 worth of obsolete merchandise had been disposed of during the current period, there is still \$739.87 of obsolete books and clothing included in the inventory. Necessary steps should be taken to dispose of this merchandise. The salable merchandise on hand at present is

valued at \$1,907.11.

Midshipmen's Clothing Accounts: An analysis of the Midshipmen's Clothing Accounts as of June 7, 1950 reflected an improved condition over that noted on the date of the previous audit. The amounts due on both dates follow:

	<u>June 1, 1949</u>	<u>June 7, 1950</u>
Due to Disenrolled Midshipmen	\$1,702 47	\$ 17 16
Due from Disenrolled Midshipmen	77 99	77 99
Due Midshipmen in Academy	2,231 92	6,984 05

Officers' Mess Fund: This fund has been inactive for several years. In accordance with a suggestion made in the previous audit report, this fund has not been discontinued and the balance of \$524.60 on hand on June 1, 1949 was transferred to the Welfare and Social Fund with the approval of the Board of Commissioners. It is understood that this money is to be used for the benefit of the midshipmen.

Special (Old Canteen) Fund: In accordance with a suggestion made in the previous audit report, this account has been discontinued. The balance of \$226.17 on hand on the date of the previous audit, plus \$12.90 found in the safe, or a total of \$239.07 was also transferred to the Welfare and Social fund. This transfer was also approved by the Board of Commissioners.

Full and By Account: As this account had been inactive for several years it was suggested in the previous audit report that it too be closed. The Academy officials, with the approval of the Board of Commissioners, also transferred the balance of \$15.39 remaining in this account, to the Welfare and Social Fund.

Fees Paid by Midshipmen: Fees in effect during the period under audit were as follows:

Insurance Fee - \$3.60 per year - payable in a lump sum. To pay for the cost of \$1,000.00 liability policy required of all Midshipmen by the U. S. Maritime Commission. (Premiums are remitted to this Commission).

Welfare and Social Fee - \$15.00 per year - payable \$1.25 a month. To defray expenses associated with recreational activities.

Athletic Fee - \$10.00 per year - payable \$.83 a month. To defray expenses associated with athletic activities.

Clothing (Special) Fee - \$100.00 per year - payable \$8.33 a month. To meet requirements for replacements of clothing and equipment for ensuing year and to assure that the Midshipmen have a sufficient balance to meet requirements and indebtedness. Senior class is exempt.

Service (Special) Fee - \$100.00 per year - payable \$8.34 a month. To meet the Service fee requirements for the ensuing year. Senior class is exempt.

It is understood that the Board of Commissioners are contemplating a further change in the above fees beginning with the class enrolling in September 1950.

John J. Egan Memorial Fund: This Memorial Fund was set up by Mr. J. J. Egan, Sr., to memorialize his son's service and loss of life while on a cruise as a Midshipmen. The money entrusted is to be used annually to inscribe the name of outstanding Midshipmen on a large cup trophy which was presented to the Academy by Mr. J. J. Egan, Sr. On the date of audit, there was a balance of \$255.00 in this fund.

Captain Emery Rice Memorial Fund: This Memorial Fund was set up to memorialize Captain Rice through a gift from his sister.

The money entrusted is to be used to acquire mementos, relics, and war souvenirs of both World Wars and to exhibit and care for the War medals, books, and pictures of Captain Rice, which were presented to the Academy by his sister. On the date of audit, there was a balance of \$470.00 in this fund.

not in agreement with the Comptroller's Records, as follows:

Albert H. Munsell Fund Income, Per Books	\$222 03
Albert H. Munsell Fund Income, Per Comptroller	322 03
Difference to Adjust	<u>\$100 00</u>
Mercy A. Bailey Fund Income, Per Books	\$20 97
Mercy A. Bailey Fund Income, Per Comptroller	21 59
Difference to Adjust	<u>\$ 62</u>
Rebecca R. Joslin Fund Income, Per Books	\$973 68
Rebecca R. Joslin Fund Income, Per Comptroller	986 80
Difference to Adjust	<u>\$ 13 12</u>

While this audit was in progress daily statements of transactions were received from the Comptroller correcting these differences.

Art School Associates, Inc.

Voided Checks: It is suggested that the signature part of the check be removed on all voided checks.

Change Fund: It is again suggested that a change fund be created in a specified amount and that a corresponding account be set up in the general ledger for it.

Disbursements from Daily Receipts: It is again suggested that the present practice of making payments of all kinds from the daily cash receipts be eliminated and that the Petty Cash Fund be used for the purpose for which it was originally intended.

NEW BEDFORD TEXTILE INSTITUTE

REPORT No. 2704

State Accounts: The reconciliation of cash on March 31, 1950 showed a shortage of \$11.70. This shortage was carried over from the former Treasurer and the matter has been referred to the Attorney General for disposition.

Bookkeeping and Records: It was stated in the previous audit report that the expense ledger for the fiscal year 1948 had not been maintained. It was noted that the Expense Ledger for the 1949 fiscal year is currently posted.

Accounts Receivable: In accordance with a suggestion made in the previous audit report the uncollectible accounts receivable were referred to the Attorney General for disposition and proper authority was received to charge them from the records.

Special Appropriations: It was stated in the previous audit report:

"The institution records on account of special appropriations show a disbursement of \$10,463.10 for contractual work done in the Chemistry Laboratory which has not been allowed by the Comptroller.

"The Comptroller refused to approve this payment because the provisions of Chapter 29, Section 8A of the General Laws, as most recently amended by Chapter 547 of the Acts of 1941, regarding public advertising in newspapers or trade periodicals before awarding the contracts, was not complied with and because the contract had not been approved by the Attorney General's Office.

"It was learned from the principal of the School that a bill was introduced in the current session of the legislature for authority to pay this claim."

It was noted that claim was paid in accordance with a Special Act passed by the General Court.

Students' Deposits: It was stated in the previous audit report:

"It was noted that \$524.00 on account of chemistry fees and \$17.00 on account of lost keys are included in the Students' Deposits balance of \$572.25.

"As both of these items represent income accruing to the Commonwealth, they should be transferred to the State Treasurer as soon as possible."

This income has now been transferred to the State Treasurer.

Trust Funds: In connection with the checking of scholarship awards, it was noted that they were not recorded in the minutes of the meetings of the Board of Trustees.

New England Foundation Grants: In October 1947, this Institute received two grants totaling \$8,000.00 from the New England Textile Foundation to be used for equipment and salaries. The Foundation allotted \$6,000.00 for equipment and \$2,000.00 for salaries. These grants are in the custody of the president of the Institute.

In addition to the above grants the Institute was also granted in October 1948, \$11,400.00 for equipment and \$8,820.00 for faculty aid. In this instance, however, the Foundation handles the funds and makes all disbursements.

An examination of the grants disclosed that an expenditure of \$50.00 was made out of the October 1947 grant for salaries of \$2,000.00, to cover the expenses of a New York visit taken by the president of the Institute. There was no written authority on file from the New England Foundation to cover this expenditure.

The question is raised as to whether or not this expenditure was in accordance with the original intent of the grant.

Book and Supply Department Fund: It was stated in the previous audit report:

"It is recommended that a suitable bookkeeping system be installed, that the cash be balanced daily, and that the cash be deposited in the bank at regular intervals, daily if possible."

A suitable system has been installed and the cash is now being handled in a satisfactory manner.

Athletic Association Fund: This fund was not examined because the records were inadequate and not currently written up.

There was no action taken on a previous suggestion that an adequate system be installed and the personnel handling it be properly instructed in its operation.

This suggestion is, therefore, again made.

SCHOOL BUILDINGS ASSISTANCE COMMISSION

REPORT No. 2716

Payments by the Commonwealth to Cities and Towns under Chapter 645 of the Acts of 1948 as amended by Chapter 637 of the Acts of 1949. This Commission was created to encourage the establishment of regional and consolidated public schools and to provide financial assistance to cities and towns in the construction of school buildings. As of the date of audit May 1, 1950 no payments had been made to the cities and towns for construction grants. The General Court appropriated \$600,000 for this purpose for the fiscal year 1950. Preliminary details are currently being worked out and it is expected that a large portion of this amount will have been paid to the cities and towns in the form of grants before the end of the 1950 fiscal year.

Financing: The law makes no provision to aid the various cities and towns in obtaining the funds necessary to construct school buildings as the grants, which are to be paid over a period of years, are made after the construction has been completed and the final cost determined. It is therefore necessary for the majority of the cities and towns to obtain funds for this purpose from the sale of bonds. The interest rate payable on these bonds while not exorbitant is, nevertheless, greater in most cases than the rate at which the Commonwealth can borrow money.

The following is a list of borrowings by cities and towns for school purposes:

<u>Date</u>	<u>City or Town</u>	<u>Amount</u>	<u>Interest Rate Per cent</u>	<u>Period of Issue</u>
6/ 1/49	Templeton	\$ 40,000 00	2 1/4	20 years
3/ 1/49	Otis	60,000 00	2	20 years
8/ 1/49	Pembroke	60,000 00	1 3/4	12 years
3/15/49	Wayland	140,000 00	1 3/4	20 years

<u>Date</u>	<u>City or Town</u>	<u>Amount</u>	<u>Interest Rate Per cent</u>	<u>Period of Issue</u>
2/ 1/49	Agawam	\$ 399,000 00	2	20 years
7/ 1/49	Framingham	164,000 00	2	20 years
7/ 1/49	North Reading	240,000 00	2	20 years
4/ 1/49	Oxford	300,000 00	2 1/4	20 years
4/ 1/49	Charlton	210,000 00	2 1/4	20 years
9/ 1/49	Sudbury	150,000 00	1 3/4	15 years
7/15/49	Norwell	300,000 00	2 1/4	20 years
4/ 1/49	Brookline	1,016,000 00	1 3/4	20 years
5/ 1/49	Billerica	380,000 00	2	19 years
6/ 1/49	Sandisfield	38,000 00	2 1/4	20 years
7/ 1/49	Arlington	637,000 00	1 3/4	20 years
6/ 1/49	Lanesborough	250,000 00	2 1/4	20 years
8/ 1/49	East Bridgewater	400,000 00	2	20 years
7/ 1/49	Lowell	1,000,000 00	2 1/2	20 years
5/15/49	Holden	570,000 00	2	20 years
10/ 1/49	Sutton	325,000 00	2	20 years
8/15/49	Ashland	120,000 00	2	20 years
9/ 1/49	Shutesbury	42,000 00	2	10 years
12/15/49	Wilbraham	330,000 00	1 3/4	20 years
9/ 1/49	Lakeville	130,000 00	2	20 years
6/ 1/49	Lynn	200,000 00	2	15 years
9/ 1/49	Leverett	140,000 00	2 1/4	20 years
8/15/49	Yarmouth	350,000 00	1 3/4	20 years
9/15/49	Freetown	150,000 00	2	20 years
10/ 1/49	Lynnfield	275,000 00	1 3/4	20 years
3/ 1/50	Lynnfield	25,000 00	1 3/4	20 years
12/ 1/49	Norton	465,000 00	1 3/4	20 years
10/15/49	Marshfield	391,000 00	1 3/4	20 years
7/ 1/49	Natick	600,000 00	2	20 years
7/15/49	Canton	537,000 00	2	20 years
11/ 1/49	Norfolk	240,000 00	2	20 years
10/ 1/49	Walpole	445,000 00	1 3/4	20 years
3/15/50	Hanson	500,000 00	1 3/4	20 years
1/15/50	Sturbridge	170,000 00	1 3/4	20 years
4/15/50	Sharon	400,000 00	1 3/4	20 years
4/15/50	Cohasset	694,000 00	1 3/4	20 years
4/15/50	Cohasset	118,000 00	1 3/4	19 years
4/15/50	Cohasset	79,000 00	1 3/4	15 years

By comparison the Commonwealth has recently made the following borrowings:

<u>Date</u>	<u>Purpose</u>	<u>Amount</u>	<u>Interest Rate Per cent</u>	<u>Period of Issue</u>
6/28/49	Fall River Harbor	\$ 300,000 00	1.6	10 years
6/28/49	Capital Outlay	6,000,000 00	1.6	13 years
6/28/49	Logan Airport	6,000,000 00	1.6	16 years
6/28/49	Boston Harbor	3,500,000 00	1.6	20 years
6/28/49	Metropolitan			
	Sewerage	2,000,000 00	1.6	20 years
2/10/50	Capital Outlay	4,500,000 00	1.5	12 1/2 years
2/10/50	Metropolitan			
	Sewerage - North	300,000 00	1.5	20 years
2/10/50	Metropolitan			
	Sewerage - South	1,200,000 00	1.5	20 years
2/10/50	Metropolitan			
	Additional Water	5,000,000 00	1.5	30 years
2/10/50	Metropolitan Water			
	District - Water Use			
	Development	3,540,000 00	1.5	30 years
2/10/50	Sinking Fund			
	Refinancing	410,000 00*	1.5	21 years

* Callable on any interest date after 5 years from date of issue.

It is obvious from this comparison that the Commonwealth is in a position to borrow money at a cheaper rate of interest than many of the cities and towns. While the Commonwealth borrowed at rates of 1.5% and 1.6% many cities and towns committed themselves at rates of 1 3/4% to 2 1/4%. Should the present statute be amended to place the credit of the Commonwealth directly behind such borrowings, substantial savings to the taxpayers will result immediately and continue for the next twenty years.

Bonding of Personnel: At the present time no member of the Commission or its employees is bonded. It is recommended that the clerk whose duty it is to handle advances from the State Treasurer be bonded.

STATE TEACHERS COLLEGE AT FRAMINGHAM

REPORT No. 2717

Bookkeeping Records, etc: The audit of this college's accounts was started on May 1, 1950. On the occasion of this visit, it was immediately obvious that the records necessary for making an audit were not posted or entered currently. This included the following:

Cash Book - Cash Disbursements - not recorded since June 30, 1949

Cash Receipts - many items recorded in pencil

General Ledger - not posted since June 30, 1949

Journal Entries - none made or entered since June 30, 1949

Closing Entries 1949 - Received by the school but not yet posted in the general ledger

Board Ledger - none maintained

Financial Reports - none submitted for Fiscal 1950

It was learned that the college had made a change of bookkeepers on June 1, 1949, but the appointee had not apparently been properly instructed in the manner of keeping the records. It is understood that the school authorities had requested that the Comptroller's Bureau send a representative for the purpose of instructing the necessary personnel - but no one was made available to the school for this purpose until May 1950, nearly one year later.

It is, therefore, suggested that the Comptroller's Bureau give the college necessary assistance in bringing its records on a current basis so that the subsequent audit of this institution's accounts may be satisfactorily completed.

Cash Variance: In balancing the cash a variance of \$95.48 was noted. Because of the status of the records, this account could not be identified.

STATE TEACHERS COLLEGE AT LOWELL

REPORT No. 2644

Closing Entries: As the closing entries had not been received from the Comptroller's Bureau for the 1949 fiscal year prior to the completion of the current examination, it was impossible to complete this audit of the accounts of this college.

STATE TEACHERS COLLEGE AT NORTH ADAMS

REPORT No. 2732

Cash: A shortage of \$12.39 was noted when the cash on hand was counted and balanced on June 19, 1950.

State Aid: Disbursements of these funds to students exceeded the amounts received from the Department of Education in the amount of \$12.00.

Accounts Receivable: A trial balance of the Accounts Receivable Subsidiary Ledger was drawn off as of March 31, 1950, and it was noted that the detail of the subsidiary ledger did not agree with the control account. The following shows the accounts receivable balances as indicated by institution records as of March 31, 1950.

Subsidiary Ledger Trial Balance	\$1,482 44
General Ledger Control Account	1,419 03
Income Statement - per March 31, 1950 Financial Report	1,333 74

This condition was commented upon in previous audit reports and it is again advised that the control and detail should be in reconciliation and the balances shown on the Income Statement of the monthly financial reports should reflect the correct balances of the accounts outstanding.

Funds Transferred to State Treasurer: The last transfer of income receipts to the State Treasurer was noted to have been made on May 5, 1950.

Records Not Posted Currently: Because certain records were not posted up to the date of the current examination, certain items including the accounts receivable and income accounts were verified only through March 31, 1950.

STATE TEACHERS COLLEGE AT SALEM

REPORT No. 2657

Advances to Employees: It was noted that the disbursing and return of advances to employees was placed under the column "Advances by State Treasurer" in the cash book. It is suggested that this column heading be changed with the approval of the Comptroller's Bureau to "Advances - Employees", and such an account be set up in the General Ledger.

Endowment Fund: The previous audit report included a comment recommending that general ledger accounts be set up for each individual endowment fund. While this recommendation has been partially complied with, it is further suggested that accounts of the same type be set up for the following:

Amanda Parsons Fund
Susan Barker Scholarship Fund

STATE TEACHERS COLLEGE AT WORCESTER

REPORT No. 2661

General: The financial transactions of the college are not kept in accordance with the Comptroller's Accounting Manual.

In this connection it will be noted that the previous audit report included the following comment:

"That the Comptroller's Bureau visit the College and instruct the personnel in order that the financial transactions be recorded in accordance with the Accounting Manual."

As this suggestion has not been followed it is again suggested that a representative of the Comptroller's Bureau visit the college for the purpose of instructing personnel as to the proper keeping of these financial records.

TEACHERS' RETIREMENT BOARD

REPORT No. 2685

Trial Balance of Contributions Ledger: An examination of the contribution ledger cards showed that many postings were not being made currently. Entries for contributions are often made in the cash book two months prior to their entry in the ledger. It is recommended that postings to the ledger be made at the end of every month.

It was also noted that no trial balance had been taken of the contribution ledger. This should be done at the end of each month and also at the end of the calendar year.

Records - Microfilm: The previous audit report recommended that the bookkeeping records relating to the teacher's deposits be microfilmed. It was noted that this is now being done.

Securities Records: The examination of the record of securities, which is kept on a card system, indicated that the amortized value of the securities had not been carried from one card to another when several cards were being used to record the status of a particular security. It is recommended that this be done.

UNIVERSITY OF MASSACHUSETTS AT AMHERST

REPORT No. 2664

Cash Over and Short: On October 31, 1949, the opening day of the audit, there was a net cash overage of \$125.25 noted in connection with the balancing of cash. The record of daily cash variances was analyzed for the audit period, and a comparison of the variances for the current and previous audit periods was made and the variances of the cur-

rent audit period were discussed with the assistant treasurer. While most of the variances occurred during student registration periods, it was noted that variances also occurred in each of the months within the audit period.

The processes involved in handling cash receipts and payments sections of the treasurer's office were discussed with the assistant treasurer, and it is understood that continued efforts are now being made to reduce these cash variances to a minimum.

Advance Money: The reconciliation of advance money as of October 31, 1949 indicated a deficit balance in the amount advanced for Office and Administrative Expenses - sub-section 14 - of the **Maintenance Appropriation**.

Special Appropriations: The completion date of the base contract awarded under Project #8113-07 - New Physics Building, according to the contract terms, was September 21, 1948. The request of the contractor to grant an extension to October 31, 1949 had not been approved by the Massachusetts Public Buildings Commission as of January 5, 1950.

Control of Non-Expendible Property: The preliminary report of the financial operations of the University for the year ended June 30, 1949 showed equipment on hand valued at \$1,351,952.30. This amount included laboratory and scientific equipment, automotive equipment, machinery and tools, mechanical equipment and furnishings and fixtures. Copies of inventories submitted by the various departments as of June 30, 1949 are filed with the University treasurer. It was noted that, following a suggestion made at the time of the previous audit, the inventories are now certified as being correct by the respective departments.

Personnel - Records and Pay Roll Disbursements: Not including the student labor pay roll, the University authorities reported to the State Comptroller that there had been 1,305 permanent and temporary employees on the University pay roll for the period from July 1, 1949 to April 30, 1950.

Previous audit reports commented upon the fact that there was no one location at the University where pertinent information on all personnel could be obtained.

In a discussion with the secretary of the University, while the current audit was in progress, it developed that temporary per diem employees - so-called, "Quota Labor" - were, in some cases, being paid below the prescribed wage scales based upon the length of service of the individual employees and upon rules and regulations of the Division of Personnel relative to annual increments.

This situation was brought to the attention of the University treasurer.

An analysis of the so-called "Quota Labor" was made by the University and a transfer of \$21,000.00 from -01, Personnel Services - Permanent to -02, Personal Services. Other, was requested to provide funds to pay retroactive amounts due to bring the wage rates of the employees to a proper current annual rate.

It is understood that information on all employees will be available in the Personnel section of the President's office in the future.

It is recommended that the Division of Personnel and Standardization in the Commission on Administration and Finance review the entire personnel structure of this University.

Notes Receivable - Suspense: It is again suggested that the University officials interpret the instructions contained in the Accounting Manual, which refer to accounts receivable referred to the Attorney General, to apply also to the notes receivable which the University has referred to the Attorney General for collection, and that proper entries be made on the records to reflect the status of notes receivable.

Tuition Charges: The previous two audit reports stated:

"An examination of invoices submitted to parents for the payment of tuition showed that resident tuition rates were paid by persons whose residence addresses were outside the Commonwealth. This was discussed with the university treasurer who stated that the rules covering the payment of tuition had a proviso to the effect that a student would not lose residential preference during his continuous attendance at the university. The treasurer also said that if the parents or guardian or a student paying non-resident tuition rates, became residents of the Commonwealth, the student would receive the benefit of the resident rates. It would seem that, when a residential preference is lost by

virtue of the moving of a parent or guardian to another state, the students who would be in attendance at the college would be charged the non-resident tuition rate."

This condition has not changed, therefore, attention is again called to it.

University Production: Beginning in 1940 the budgetary classification "Farm" was changed to "Productive Enterprises" and included the following departments:

Dairy
Farm
Floriculture
Mount Toby
Pomology
Poultry Husbandry

The University general ledger now includes the following accounts relating to the farm activities:

Farm Production
Farm Storage
Farm Products Used
Clearing Account Prior Farm Storage

These accounts show only transactions which come within the supervision of the Farm Department. If the titles of these accounts were changed, and the word "Farm" in each of the four accounts be replaced with the word "University", the production and disposition of all the University departments could be recorded on the financial records of the University Treasurer and these accounts could reflect the entire production of all the University departments.

At the time of several previous audits, this matter was brought to the attention of the University Treasurer, and it was suggested that the University departments be provided with the subsidiary forms now in use at the Farm Department so that the monthly productions reports which are submitted to the Treasurer's office could be verified to a record of original entry.

It is again recommended that this matter be referred to the Commission on Administration and Finance, so that the necessary records of original entry and a complete centralized control of all University production and disposition may be installed.

Alvord Dairy Scholarship Fund: It was shown in the previous audit report that the bequest under which this fund was established specified that the fund was bequeathed to:

"..... The Massachusetts Agricultural College, Amherst, Massachusetts, provided that the present name and leading features of said college be not changed, to found a scholarship, to be known as the Alvord Dairy Scholarship....."

On October 31, 1949 the balance in this fund was \$4,197.15 with accumulated income of \$1,325.38. The name of the college was changed by Chapter 127 of the Acts of 1932 to the Massachusetts State College, and then changed to the University of Massachusetts by Chapter 344 of the Acts of 1947. The question has been raised in previous audit reports as to whether the trustees are complying with the original bequest in continuing to retain this fund.

Attention is again called to the provisions of this fund.

Danforth Keyes Bangs Revolving Fund: This fund was established by the board of trustees by transferring \$5,000.00 from the Danforth Keyes Bangs Endowment Fund, which had been allowed to accumulate from the original bequest of \$6,000.00.

As the Danforth Keyes Bangs Fund was established by a bequest providing: "...the income thereof to be used annually...", it was recommended in previous audit reports that the Attorney General be requested to examine the establishing of the Danforth Keyes Bangs Revolving Loan Fund to determine if the fund could be properly set up under the terms of the bequest. As yet this matter has not been clarified. On October 31, 1949 the balance in this fund was \$5,564.67.

Charles S. Plumb Fund: The bequest under which this fund was established states

that one-half the annual income is to be awarded each year and the other half of the annual income is to become part of the original fund for the next fifty years after the plan goes into operation.

The records of the college show that no award has been made from this fund.

Half the income earned to June 30, 1949 was transferred to the principal account on June 30, 1949.

George H. Barber Fund: The income of this fund is to be used annually for the encouragement of general athletics among the student body as a whole. There have been no expenditures since prior to July 1, 1946 from this fund and accumulated income on hand on October 31, 1949 amounted to \$3,223.50.

Disbursement of Endowment Income: In connection with checking the disbursements, several items were noted which appear to be questionable charges against the various endowment funds.

While it is recognized that certain endowment funds, particularly the Burnham, Session and Wheeler Funds, are not restricted insofar as expenditures are concerned as distinctly as are some of the other funds, it is thought that certain expenditures made from them should have been confined to matters other than the following:

Burnham Emergency Fund

Sept. 23 1948	4 Luncheons	\$ 3 00
Feb. 24, 1949	10 Dinners	11 50
Mar. 16, 1949	1,000 Letterheads and Envelopes	29 55
June 16, 1949	61 Commencement Meals	88 75
Aug. 8, 1949	3 Luncheons	3 75
June 4, 1949	11 Dinners	38 50
Sept. 28, 1949	5 Luncheons	6 25
		<u>\$181 30</u>

Sessions Fund

Oct. 1948	Transfer Organ and Piano	\$20 00
Mar. 5, 1949	7 Luncheons	6 65
Aug. 25, 1949	1,500 Copies Preliminary Financial Report	45 00
		<u>\$71 65</u>

Wheeler Fund

Nov. 12, 1948	Inauguration Programs	\$31 50
Dec. 9, 1948	1 Dinner	3 75
Jan. 19, 1949	6 Dinners	23 63
Jan. 31, 1949	3 Luncheons	2 25
		<u>\$61 13</u>

Boarding Hall: The June 30, 1949 financial report of the University showed the following information relative to the operations of the Boarding Hall for the 1949 fiscal year.

Appropriation Expenditures	\$422,314 54
Revenue Receipts	<u>336,815 63</u>
Excess of Expenditures over Receipts	<u>\$ 85,498 91</u>

It is understood from the University officials that receipts from Boarding Hall operations are supposed to equal appropriation expenditures.

It is also understood from the University officials that the excess of expenditures over revenue was due to a change from a compulsory policy for the fiscal year 1948 and prior to a non-compulsory policy for the fiscal year 1949.

Pay Roll: The pay roll for the month of December 1949 was analyzed by positions, both permanent and temporary, and the results are shown in the following schedule:

Boarding Hall Pay Roll Positions

December 1949			
<u>Position</u>	<u>Salary Grade</u>	<u>Permanent</u>	<u>Temporary</u>
Administration:			
Manager	53	1	-
Junior Accountant	24	-	1
Junior Clerk	6	<u>1</u>	<u>1</u>
		<u>2</u>	<u>2</u>
Stores:			
Storekeeper	17	1	-
Storeroom Helper	9	<u>1</u>	<u>2</u>
		<u>2</u>	<u>2</u>
Kitchens:			
Dietitian	21	1	-
Chef	21	1	3
Head Cook	14	2	2
Cook	10	4	2
Baker	16	1	-
Assistant Baker	9	3	1
Meat Cutter	13	1	-
Kitchen Helper	7	<u>17</u>	<u>10</u>
		<u>30</u>	<u>18</u>
Dining Rooms:			
Dining Hall Supervisor	17	1	1
Head Dining Room Attendant	9	1	-
Dining Room Attendant	7	<u>2</u>	<u>1</u>
		<u>4</u>	<u>2</u>
Housekeeping:			
Janitor	9	1	-
Housekeeper	7	<u>1</u>	<u>-</u>
		<u>2</u>	<u>-</u>
Total		<u>40</u>	<u>24</u>

Note: In addition to the foregoing, an assistant professor supervises the operations of one of the boarding halls.

The 64 positions shown on the preceding schedule, on monthly salary basis, are paid approximately \$12,585.00.

The Student Labor pay roll is in addition to the foregoing amount.

Meals Served: A tabulation of meals served, according to the Boarding Hall records, was made for the two fiscal years, 1948 and 1949.

The meals reported as having been served to Students and Student Workers, and meals sold as cash sales, were tabulated from records in the office of the University Treasurer for the year 1949 and compared with the daily and monthly records of the Boarding Hall. Meals served in both classifications represented about 97% of the total meals reported served.

The following schedules show this comparison, as tabulated for the two years analyzed:

Comparison of Meals Served
1948 and 1949 Fiscal Years

<u>1948 Fiscal Year</u>	<u>Draper</u>	<u>Greenough</u>	<u>Butterfield</u>	<u>Total</u>
Students and Student Workers	221,312	192,191	114,167	527,670
Cash Sales	15,747	3,458	378	19,583

Staff Tickets	<u>23,010</u>	<u>4,524</u>	<u>1,249</u>	<u>28,783</u>
Sub-Total	260,069	200,173	115,794	576,036
Regular Workers	<u>10,110</u>	<u>4,128</u>	<u>2,453</u>	<u>16,691</u>
Total	<u>270,179</u>	<u>204,301</u>	<u>118,247</u>	<u>592,727</u>

Days in Operation	<u>345</u>	<u>308</u>	<u>239</u>	<u>-</u>
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1949 Fiscal Year

Students and Student Workers	160,891	142,708	78,770	382,369
Cash Sales	145,794	34,837	22,876	203,507
Staff Tickets	<u>1,218</u>	<u>497</u>	<u>-</u>	<u>1,715</u>
Sub-Total	307,903	178,042	101,646	587,591
Regular Workers	<u>10,328</u>	<u>3,989</u>	<u>2,500</u>	<u>16,817</u>
Total	<u>318,231</u>	<u>182,031</u>	<u>104,146</u>	<u>604,408</u>

Days in Operation	<u>319</u>	<u>286</u>	<u>234</u>	<u>-</u>
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1949 over 1948:				
Increase	48,052	-	-)	11,681
Decrease	<u>-</u>	<u>22,270</u>	<u>14,101)</u>	<u>-</u>

Note: "Draper Annex" Dining Hall opened in 1949 fiscal year.

A comparison of meals served in each month of the 1948 and 1949 fiscal years appears as follows:

	1949 Fiscal Year	1948 Fiscal Year	1949 over 1948	
			Increase	Decrease
July	15,731	19,090		3,359
August	14,713	16,101		1,388
September	32,861	27,890	4,971	
October	91,162	79,344	11,818	
November	72,677	64,347	8,330	
December	47,733	48,961		1,228
January	69,693	66,553	3,140	
February	69,861	62,016	7,845	
March	68,159	63,090	5,069	
April	46,078	64,997		18,919
May	53,874	64,186		10,312
June	<u>21,866</u>	<u>16,152</u>	<u>5,714</u>	
Total	604,408	592,727	46,887	35,206
Net Increase		<u>11,681</u>		<u>11,681</u>
	<u>604,408</u>	<u>604,408</u>	<u>46,887</u>	<u>46,887</u>

A comparison of costs per meal served was determined for the 1948 and 1949 fiscal years, and the comparisons made also on a monthly basis. The following schedule shows comparison, on an annual basis:

Comparison of Costs per Meal Served1948 and 1949 Fiscal Years

	1948		1949	
Total Number of Meals Served	<u>592,727</u>		<u>604,408</u>	
	Average		Average	
	Cost per		Cost per	
	Total Costs	Meal	Total Costs	Meal
Costs:				
Personal Services	\$111,634 01	\$.1883	\$148,959 16	\$.2463
Food Issues	210,181 85	.3546	238,369 10	.3944

Other Charges	\$ 17,542 16	\$.0296	\$ 23,736 64	\$.0393
Total Costs	<u>\$339,358 02</u>	<u>\$.5725</u>	<u>\$411,064 90</u>	<u>\$.6800</u>
Average Costs per Eater per Day, 1949				<u>\$2 04</u>
Selling Prices, per Day, 1949				
(A) Student Tickets				<u>\$1 4285</u>
(B) Cash Sales:				
(1) Weekdays to March 14, 1949				\$1 50
(2) Sundays to March 14, 1949				\$1 60
(3) All days after March 14, 1949				<u>\$1 90</u>

Beginning with the opening of school in September 1949, a compulsory Dining Hall policy for certain students was established. A comparison of the number of meals served in the corresponding months of the 1949 and 1950 fiscal years is presented:

<u>Comparison of Number of Meals Served</u>				
	<u>1950 Fiscal</u>	<u>1949 Fiscal</u>		
	<u>Year</u>	<u>Year</u>	<u>Increase</u>	<u>Decrease</u>
July	19,286	15,731	3,555	
August	17,148	14,731	2,435	
September	41,320	32,861	8,459	
October	85,626	91,162		5,536
November	72,206	72,677		471
December	44,656	47,733		3,077
	<u>280,242</u>	<u>274,877</u>	<u>14,449</u>	<u>9,084</u>
Net Increase		<u>5,365</u>		<u>5,365</u>
	<u>280,242</u>	<u>280,242</u>	<u>14,449</u>	<u>14,449</u>

With a change from a non-compulsory to a compulsory policy, less meals were served in October, November and December 1949 when compared with the corresponding months of October, November and December 1948.

Beginning with October 1949, the Boarding Hall submitted monthly reports of operations to the University Treasurer. A comparison of total costs and average cost per meal for the months of October, November and December 1949 is shown as follows:

<u>Comparison of Meal Costs</u>				
	<u>October</u>	<u>November</u>	<u>December</u>	<u>Total</u>
	<u>1949</u>	<u>1949</u>	<u>1949</u>	
Personal Services	\$16,369 68	\$15,625 94	\$14,262 49	\$ 46,258 11
Food	32,589 18	27,215 00	16,173 49	75,977 67
Other Materials and Supplies	2,224 31	749 93	153 15	3,127 39
Other Expenses	1,529 06	1,294 75	692 79	3,516 60
Total	<u>\$52,712 23</u>	<u>\$44,885 62</u>	<u>\$31,281 92</u>	<u>\$128,879 77</u>
Number of Meals Served	<u>85,626</u>	<u>72,206</u>	<u>44,656</u>	<u>202,488*</u>
Average Cost per Meal	<u>.6156</u>	<u>.6212</u>	<u>.7005</u>	<u>.6365</u>
Average Selling Price per Meal:				
To Students	.583	.583	.583	.583
Cash Sales	.633	.633	.633	.633
To Employees	<u>.30</u>	<u>.30</u>	<u>.30</u>	<u>.30</u>

	<u>Meals Served</u>	<u>Average Loss</u>
		<u>per Meal</u>
* Meals Sold to Students	157,219	77.64%
Meals Sold, Cash Sales	40,432	19.97%
		.0535
		.0035

Meals Sold to Employees	4,837	2.39%	.3365
	<u>204,488</u>	<u>100.00%</u>	

Based upon the data in the preceding schedule and the analysis of meals served, an operating loss, based upon the average loss per meal served, would approximate \$10,000.00.

Each of the monthly reports submitted by the Boarding Hall and signed by the Boarding Hall Manager showed the following amounts as profits after elimination of the so-called "Snack Bar":

October 1949	\$ 7,113 21
November 1949	9,190 49
December 1949	1,016 28
	<u>\$17,319 98</u>

From the foregoing it is obvious that:

1. During the 1949 fiscal year, there was a net increase of 11,681 meals served at the Boarding Halls.
2. The first appreciable decrease in meals served in 1949 as compared with 1948, was in April 1949 and May 1949 - the two immediate months following the increase in selling prices for "Cash Sales" from \$1.50 to \$1.90 per day.
3. There was an average daily operating loss in 1949 on meals sold to Students of \$.6115 per day per student.
4. There was an average daily operating loss on meals sold as "Cash Sales" from \$.14 to \$.54 per day per eater.
5. After returning to a compulsory basis of feeding, fewer meals were served in the months of October, November and December 1949, as compared with corresponding months of the preceding year. These are the first full months of school year activities.
6. There is an operating loss of approximately \$10,000.00, based on the average cost and average selling price for meals in October, November and December 1949; while the reports of the Boarding Hall Manager showed profits of \$17,319.98 for the same period.

In view of the foregoing, it is suggested that the entire Dining Hall arrangement be again completely reviewed by the Commission on Administration and Finance.

University Store: The activities of the University Store are divided into three classifications:

The textbook section represents the transactions in the purchase and sale of textbooks to students.

The supplies section represents the purchase and sale of class supplies and candy, tobacco, notions, etc., to students.

The luncheonette section represents the transactions in the purchases and sales of coffee, sandwiches, and an ice cream bar.

Gross cash receipts recorded on the records of the University Treasurer for the period under audit were:

Textbooks	\$188,746 80
Supplies	109,913 95
Luncheonette	34,530 69
Post Office	750 00
	<u>\$333,941 44</u>

Because the accounting system is not designed for the ready verification of sales through inventories, conversion to selling prices was not attempted and inventories were not taken.

Sales for the fiscal year ended June 30, 1949 increased \$73,270.66 over sales of the previous year. Sales were verified on a test basis to cash register tapes and to copies of vouchers submitted to the Veterans Administration for reimbursement of books and supplies issued to veteran students.

Purchases and expenses were verified by test to approved invoices on file in the office of the University Treasurer.

The comparison of the operating statements, as compiled by the University Store employees, for the fiscal years 1948 and 1949 is as follows:

University Store
Comparison of Operating Statements

	<u>1949</u>	<u>1948</u>	<u>Increase 1949 Over 1948</u>
Textbooks:			
Sales	\$169,296 08	\$114,725 26	\$54,570 82
Cost of Sales	<u>135,130 65</u>	<u>92,462 73</u>	<u>42,667 92</u>
Gross Profit	<u>\$34,165 43</u>	<u>\$22,262 53</u>	<u>\$11,902 90</u>
Supplies:			
Sales	\$100,238 59	\$86,323 06	\$13,915 53
Cost of Sales	<u>85,463 22</u>	<u>67,854 54</u>	<u>17,608 68</u>
Gross Profit	<u>\$14,775 37</u>	<u>\$18,468 52</u>	<u>(\$3,693 15)</u>
Luncheonette:			
Sales	\$30,249 71	\$25,465 40	\$4,784 31
Cost of Sales	<u>28,388 05</u>	<u>19,954 39</u>	<u>8,433 66</u>
Gross Profit	<u>\$1,861 66</u>	<u>\$5,511 01</u>	<u>(\$3,649 35)</u>
Total:			
Sales	\$299,784 38	\$226,513 72	\$73,270 66
Cost of Sales	<u>248,981 92</u>	<u>180,271 66</u>	<u>68,710 26</u>
Gross Profit	<u>\$50,802 46</u>	<u>\$46,242 06</u>	<u>\$4,560 40</u>
Expenses - Total	<u>\$39,904 19</u>	<u>\$35,045 81</u>	<u>\$4,858 38</u>
Net Profit before Depre- ciation but Including Other Income	<u>\$11,448 27</u>	<u>\$11,596 25</u>	<u>(\$147 98)</u>

The results of the foregoing were discussed with the University Treasurer who indicated that there had been no change in mark-up policy during the 1949 year.

Expenditures for Salaries and Labor increased \$4,385.87 from \$29,977.38 in 1948 to \$34,363.25 in 1949.

Previous audit reports included the recommendation that the Comptroller's Bureau be requested by the University authorities to install a retail value system of accounting in the Textbook and Supplies sections of the University Store.

UNIVERSITY OF MASSACHUSETTS AT FORT DEVENS

REPORT No. 2631

Loaned Federal Property: A report by the College's Procurement and Property Officer was submitted to the Commissioner and Purchasing Agent of the Commonwealth under date of August 10, 1949, which indicated that certain Federal property loaned to a concern doing business at the college had been lost or damaged in an amount totaling \$2,216.85.

It is understood that this concern has since the completion of this examination liquidated the obligation in the amount indicated by payment.

Closing of the College: It is understood that the buildings formerly used by the college have been turned back to the United States Government as of October 31, 1949. As of that date there were no more employees on the pay roll of the college. All financial records including accounts receivable are being maintained under the control of the State Purchasing Agent in the State House, and will be so handled until such time as all financial transactions have been consummated.

INDUSTRIAL ACCIDENT BOARD

REPORT No. 2725

Foreign Deposit Fund: The previous audit report stated in this connection:

"A balance in this account of \$41.58 has been carried on the books and in the bank account with the advance money for several years. There has been no activity in this account during the year. It is recommended that arrangements be made to close out this account."

It was noted that this account was closed out and the proceeds remitted to the State Treasurer.

DEPARTMENT OF LABOR AND INDUSTRIES

REPORT No. 2690

Monthly Financial Statements: Many of the monthly financial statements do not show the usual cash schedule. It is advised that this schedule should be included in every monthly statement.

Apprentice Training: A new agreement between this Department and the Veterans Administration was negotiated as of July 1, 1949. Official notification of the signing of the agreement was not received by this department until January 1950. As a result of the delay in acknowledgement, no reimbursements from this source have been received for the current fiscal year. As of January 31, 1950 the outstanding balance was \$35,472.78. It is understood that these schedules had been processed for payment and reimbursement will be made in the near future.

This new agreement became necessary because of salary increases to employees of the division which became effective July 1, 1949.

DIVISION OF EMPLOYMENT SECURITY

REPORT No. 2729

General: Funds for unemployment compensation payments and for administration of the State Division of Employment Security are provided for by maximum taxes of 3% assessed against pay rolls. Funds expended in Massachusetts for these purposes are provided for or offset entirely by collections from employers within this Commonwealth. Employers with good records for continuous employment have been permitted reductions from the maximum State levy of 2.7%, and, as a result of business conditions during the past few years, the percentage of this tax to many employers has been reduced to as little as .5%. However, at present the minimum is 1% and it is understood that the reduced rates will soon be suspended.

Irreducibly included in these taxes is an assessment of .3% collected by the Federal Government from employers, which, while it is not segregated for this purpose, offsets the sums provided by the Federal Government to administer unemployment compensation. Under this levy, from available statistical records, it is estimated that Massachusetts employers will have paid to the Federal Treasury from January 1, 1936 through June 30, 1950 (collected in each case in the following year) approximately \$85,000,000.00. As an offset to this Federal revenue, the Commonwealth has had returned to it for administration of the State Division of Employment Security approximately \$45,000,000.00, or approximately 53% of the total collected from Massachusetts employers. It was not possible to determine from this audit if any part of the excess collected from Massachusetts has been distributed to other States; however, the most recent figures available indicate that the Federal Government has collected over \$1,000,000,000.00 more than has been returned to the various States. Of this surplus, Massachusetts taxpayers have contributed approximately \$40,000,000.00.

It does not appear to be a proper operation in government to thus accumulate needless surpluses in restricted funds as a result of excessive taxation. To correct this situation, the present Federal surplus accumulated by these collections should be distributed to various States in the same proportion by which it was accumulated, and the provisions of the law should be altered so that these funds will henceforth be collected directly, then retained, and administered by the various States.

Legislation affecting these changes cannot be enacted by the Massachusetts General Court, but must be ordered by Congress.

Employer Contribution Rates: The following release dated December 19, 1949 covers changes in rates as initiated by the Director and Council:

December 19, 1949

From: Division of Employment Security
881 Commonwealth Avenue, Boston

For: Immediate Release

Section 14c of the Employment Security Law as enacted in section 1, chapter 685 of the Acts of 1941, and which became section 14d by chapter 534 of the Acts of 1943, provides that "if the unemployment compensation fund available for benefits becomes less than the amount of the benefit expense in that year of the most recent calendar year not ex-

ceeding ten in which the highest benefit expense was paid the Director and Council shall make a declaration to that effect. Effective the quarter following such declaration the lowest four rates of employer contributions shall each be advanced one-half of one per cent and the two and one-half per cent rate advanced to two and seven tenths per cent."

As required by law, Antonio England, Director of the Division of Employment Security, and the Advisory Council through its Chairman, Francis J. Carreiro, today made the declaration that the unemployment compensation fund available for benefits has become less than the amount of the benefit expense in 1949, the highest benefit expense in any year of the most recent ten years.

As of the start of business on December 19, 1949, a total of \$111,446,029.00 in unemployment compensation benefits was paid to the unemployed of this state. As of the start of business on the same day the unemployment compensation fund available for benefits amounted to \$111,067,994.00. This situation automatically advances the contribution rates of all those employers who are eligible for reduced rates under the experience rating provisions of the law to the next higher bracket as of January 1, 1950. This means that when the affected employers pay their contributions for the first calendar quarter of 1950 they will use the higher contribution rate. This increase in rates will not affect contributions for the last calendar quarter of 1949 that are due no later than January 31, 1950.

Under the experience rating provisions of the law employers who have shown stable employment for a period of time have been granted reduced contribution rates ranging downward from the legal rate of 2.7% to one-half of one per cent.

Average contribution rate for all employers for the year 1949 is estimated to be 1.4%. The Division of Employment Security will, prior to April 1, 1950, notify every employer subject to the law of his individual contribution rate that is to be used in computing his contributions to be paid for the first calendar quarter of 1950.

Administration Expense - Funds Allowed by the Federal Government for Fiscal Year Ending June 30, 1949: The previous audit report stated as follows:

"Funds allowed for administrative purposes for this fiscal year have been less than the amount necessary to cover the estimated expenses for the period. At the date of the audit the balance of funds allotted for this purpose would be sufficient to cover administrative expenses only through April 15, 1949. Efforts were being made to get additional funds sufficient to cover expenses to the end of the fiscal year.

"A suggestion from the Advisory Council of the Division relating to administration, taken from the Council's 1949 Biennial Report is as follows:

COPY

Excerpt taken from 1949 Biennial Report of State Advisory Council,
Division of Employment Security

(Explanation as to Need for Special Administrative Fund)

"II. ADMINISTRATIVE AMENDMENTS: The Advisory Council suggests the following amendments for consideration which will further perfect the law and facilitate the administration thereof. They may be grouped as follows:

1. TO GUARANTEE THE CONTINUATION OF BENEFIT PAYMENTS IN THE EVENT OF CONTROVERSIES BETWEEN THE COMMONWEALTH OF MASSACHUSETTS AND FEDERAL AGENCIES.

Whereas the administration of the Massachusetts Employment Security Law as enacted by the Great and General Court of the Commonwealth is the subject matter of concern to the Commonwealth exclusively, control of the purse strings by the Federal government has caused the latter to assume an authority to dictate to the Great and General Court what the law should be and that of supervising and re-

viewing the administration of the law.

The present situation of the Division and the Commonwealth is extremely embarrassing. The Director of the Division, in keeping with the policy of providing the greatest amount of service to the people of the Commonwealth at the lowest possible cost, submitted proper budgets to the Federal government. The Federal authorities arbitrarily failed to provide funds adequate to efficiently administer the law, and the results have been the ultimate lack of service, accumulation of backlogs and inconvenience and delays to both claimants and employers.

"The Advisory Council fully appreciates that the current unusual situation will recur whenever Federal authorities in their judgment and discretion fail to provide adequate funds for the proper and efficient administration of the Employment Security Law. There is always the possibility that for lack of funds the Division may be forced to close all of its offices at any time. Thirty-one States have already enacted laws creating funds to provide for such an emergency. Recognizing that with such funds there would be no interruption or delay of benefit payments pending settlement of any controversy or dispute which may arise between the Commonwealth of Massachusetts and the Federal authorities, the Advisory Council recommends that legislation be enacted which will permit the creation of a special administrative fund comprising the following:

(a) Interest and penalties collected from delinquent employers. At present these funds are being placed into the Unemployment Trust Fund, although in character they are not contributions as defined in the law.

(b) Any voluntary contributions that may be made to the Fund and any moneys that may be appropriated by the Commonwealth for the purpose of this Fund.

(c) A three-tenths of one per cent contribution to be levied against the pay rolls of all employers subject to the Employment Security Law, subject to existing limitations."

Sufficient funds were allowed by the Federal Government to cover expenses for the fiscal year ending June 30, 1950, although the final \$500,000.00 necessary was not received until late in June, 1950.

The "Administrative Amendments" were requested again, but no change had been made in the law to May 29, 1950, the date of the audit.

Payment of Claims: As a part of this audit, a survey was conducted to determine the currency of the processing and payment of claims by the Division.

Due to an amendment of Section 39 of the Massachusetts Employment Security Law effective November 7, 1949, initial appeals from determinations are heard by a new Determinations and Hearings Unit. Initial determinations are now made in the local offices.

The Board of Review now hears second stage appeals and as of April 30, 1950 only 186 cases were pending before this Board. An analysis of the age of these cases follows: 60.5% of the decisions issued by the Board of Review during the month of April 1950 were within thirty days of the date of receipt. Only 1.2% were later than 75 days.

Claims received by the Board of Review were examined over a short period to determine if delays existed locally in forwarding claims to this Board. No unusual or unavoidable delays were noted.

Claims referred to the Determination and Hearings Department by local offices for review and determination were not examined, but a copy of a summary report of determinations and activities of this Department furnished information as to claims disposals.

Receipts and disposals of Unemployment Compensation Cases in the Determinations and Hearings Department for the month of April, 1950 were as follows:

On hand beginning of the month	484
Received during the month	1,141
Total	1,625
Disposed of during the month	973
On hand end of the month	652
Dispositions:	
Decisions	770
Withdrawals and dismissals	43
Defaults	160

Other dispositions

-

973

Decisions by time lapse from date of receipt to date of decision including non-working days:

		Per Cent
• 0-15 days	463	60.2
16-30 days	184	23.9
31-45 days	91	11.8
46-75 days	31	4.0
Over 75 days	1	.1
	<u>770</u>	<u>100.0</u>

Determinations and Hearings Department received 157 experience rating cases and disposed of 265, reducing its inventory for this category from 892 to 784, to the end of April, 1950.

This department does not handle readjustment allowance appeals.

Reconciliation of Bank Accounts: Both bank accounts were reconciled during the current audit and in this connection, it was noted that there were 3,820 outstanding checks totaling \$54,252.00, dating from January 31, 1938 to November 30, 1949 on the Benefit Payment Account. Included in the Readjustment Account were 1,225 outstanding checks totaling \$24,779.00, dating from September, 1944 to November 30, 1949, and it is again recommended that checks six months old, or more, be canceled and the proceeds set up in an Unpaid Check Fund.

Adjustments totaling \$78.00 were found necessary in reconciling the Benefit Payment Account, and similar adjustments totaling \$88.00 were needed to effect a reconciliation of the Readjustment Account. These adjustments were made to correct errors made in charging checks to the wrong account, caused by the intermingling of Veterans' Readjustment and Unemployment Compensation checks at the bank, since both the Benefit Payment and Veterans' Readjustment bank account are placed with the same depository. The use of different colored checks for these accounts has apparently not provided sufficient protection in this matter.

In the reconciliation of the bank accounts, it was noted that a total of \$499.00 in duplicate payments, listed as fraud cases, were being held.

Reconciliation of Bank Balances - Benefit Account, Readjustment Allowance Act Account: The two bank accounts were reconciled by the machine section of the Division, after the audit date, as of close of business May 26, 1950.

The reconciliation statement of the Benefits bank account, which was received from the machine section, included a red ink item of \$7,500.00. This item was used to affect a reconciliation of the bank statement balance of May 26, 1950.

The \$7,500.00 represented a check drawn to the Treasurer of the United States from Federal Funds for Reconversion - Unemployment Benefits for Seamen.

It is suggested that the machine room ledger balance be adjusted to the correct general ledger balance.

Stock Accounts: The records in the stock room show that the inventory on July 1, 1949 was as follows:

Forms U. C.	\$53,200 00
Forms D. E. S.	3,176 86
Forms V. A.	6,087 37
Supplies	<u>29,883 68</u>
	<u>\$92,347 91</u>

Records of monthly issue values were discontinued shortly after the last audit. The cost value of issues for the last calendar year were not available. A card record is kept in the stock room for each item carried in stock. It was again noted that no control account for this stock is carried in the general ledger and it is suggested that the Comptroller's Bureau consider the advisability of setting up a control account in the general ledger.

Relation of Benefit Payments to Employer Contributions: It was noted that for the fiscal year ended June 30, 1949, the benefit payments were again in excess of the Employer Contributions and interest credits as follows:

Fiscal Year Ended June 30, 1949

Benefit Payments	\$79,539,608 22
Less:	
Checks returned, refunds, etc.	<u>149,979 54</u>
Net Benefit Payments	<u>\$79,389,628 68</u>
Employer Contributions and Interest	\$43,647,029 05
Interest Credited by U. S. Treasury	<u>3,700,386 98</u>
	<u>\$47,347,416 03</u>

It was also noted that a similar situation prevailed during the period from July 1, 1949 to May 26, 1950 of the 1950 fiscal year.

Period of July 1, 1949 to May 26, 1950

Benefit Payments	\$101,304,672 16
Less:	
Checks returned, refunds, etc.	<u>171,856 58</u>
Net Benefit Payments	<u>\$101,132,815 58</u>
Employer Contributions and Interest	\$48,781,651 20
Interest Credited by U. S. Treasury	<u>2,655,003 55</u>
	<u>\$51,436,654 75</u>

Payments exceeded Employer Contributions and interest credits during the 1949 fiscal year by \$32,042,212.65.

Debit Memoranda: Quarterly wage and contribution reports as submitted by the employers are examined by the employer reports section of the Contribution Department, and if it is determined that additional contributions, interest or penalties are payable to the division, debit memoranda are issued. The amount determined to be due from each employer is posted to the employer ledger account in the Delinquency and Collection Division.

When checks received in payment of contributions are returned by the bank as dishonored, charge vouchers are made out by the cashier's unit, and Debit memoranda to correspond are issued to the employers.

The total amount of debit memoranda is reflected in the division's Federal general ledger, but not in the State general ledger.

Delinquent Employer Reports: In addition to the amounts included in the debit memoranda, there are cases where employers have not submitted quarterly wage and contribution reports, consequently the amounts due are not known. Figures compiled by the Delinquency and Collection Division of the Contribution Department of the Division show employers delinquent in filing reports as of April 30, 1950, to be as follows:

Employers

Delinquent Current	1,672
Field Audit Outstanding	1,458
Legal Dept. Litigation	397
Legal Dept. Bankruptcy	318
Status Review	<u>52</u>
	<u>3,897</u>

Contributions Receivable - Underpayments: The total underpayments of contributions receivable on April 30, 1950, amounted to \$1,413,358.33 according to the Division records. Of this total \$187,460.41 was in the Delinquency and Collection Division and \$1,225,897.92 was in the Legal Section for collection.

The accounts with the Legal Section date back to 1936, and of the \$1,225,897.92, over \$250,000.00 are dated prior to 1945.

It is suggested that all uncollectible accounts be removed to an inactive file, and it is also suggested that proper authority be obtained to write off such accounts.

Contributions Receivable - Dishonored Checks: The general ledger recording Federal transactions shows an account balance of \$35,352.25 as of April 30, 1950. Of this total \$21,570.98 includes checks with dates prior to May 29, 1949. It is suggested that dishonored checks not made good within a reasonable time be turned over to the Legal Section for collection.

Disbursements and Overpayment Recovery Section - Reconciliation of Control Account Balances: Trial balances of individual ledger card balances supporting the overpayment control accounts of Benefit Payments and Readjustment Allowance Payments have not been taken by Division personnel in the Section since January 31, 1949.

Both the supervisor and assistant supervisor of this unit claimed that it was impractical to take trial balances of the individual ledger card balances at the audit date. It is suggested that trial balances be taken at the earliest opportunity.

Overtime Pay Roll: According to Division records the overtime for the ten months ending April 30, 1950 amounted to \$72,703.93. For the entire previous fiscal year ended June 30, 1949 the total overtime amounted to \$17,792.10.

Maintenance Expenses: A comparison of certain maintenance expenses for ten months ended April 30, 1949 with the ten month period ended April 30, 1950, indicated an increase in personal services of over \$1,000,000.00; and other expenses showing a substantial increase are as follows:

	10 Months Ending April 30, 1949	10 Months Ending April 30, 1950	Increase
Rent of Buildings	\$302,797 56	\$322,232 94	\$19,435 38
Rental of Office Machinery	153,055 16	163,322 86	10,267 70
Repairs - Office Furniture and Fixtures	9,351 38	28,305 71	18,954 33
Purchase of Equipment	7,779 43	47,636 78	39,857 35

Equipment Control: The book value of equipment on June 30, 1949 was \$484,871.47. No physical inventory of equipment has been taken in recent years and it is suggested that such an inventory be taken for control purposes.

Control of equipment is considered to be very necessary and lack of control could result in unnecessary substantial losses.

Administrative Expenses - Liabilities: At the end of the 1949 fiscal year liabilities for administrative expenses were not included in closing the books. It is suggested that liabilities be included in future fiscal year closings.

Restaurant: A restaurant has been opened in the basement of the building at 881 Commonwealth Avenue, Boston. It is being operated by a person from outside the Division, and up to the date of the audit no charges had been made for rent, heat, light or water. It is suggested that a nominal fee should be assessed for use of the various facilities.

Reserve for Benefit Payments - Conscience Fund: The previous audit report contained the following:

"A balance of \$695.00 is carried in the State general ledger in the account called "Reserve for Benefit payments". It is understood that it represents conscience fund receipts. A balance of \$580.00 is carried in the Federal general ledger under the account name "Reserve for Benefit Payments Conscience Fund". The original total in the Federal general ledger account was \$695.00, but \$115.00 was charged against the balance by a journal entry dated March 12, 1942.

"As the accounts represent the same item, the balances of each account should be the same in both ledgers."

In connection with the current examination it was noted that this balance now appears in both ledgers.

DEPARTMENT OF MENTAL HEALTH

General Department

REPORT No. 2628

1949 Advance Money: The general ledger on June 30, 1949 and July 7, 1949 showed a credit balance of \$24.80 plus \$5.34 (deposited August 23, 1949 but already in cash receipts) or a total of \$30.14 as a credit balance in the 1949 "Advance by State Treasurer" account.

Of this amount, the sum of \$2.99 (already reported as a 1949 expenditure) is due and payable to an employee. The sum of \$25.85 is due and payable to the State Treasurer as the unused balance of 1949 Advance Money. The remaining \$1.30 represents unidentified board income and should be forwarded to the State Treasurer.

Since the 1949 books of the State Treasurer and the Comptroller are now closed, it will be necessary to close the department accounts by charging the unreturned advance to expense for 1949 and then having it returned to the State Treasurer as a prior year refund in the 1949-1950 fiscal year.

Cash Account: The general ledger on June 30, 1949 showed a cash balance on hand of \$1,920.14, which apparently included \$1,890.00 for plans and specifications deposits and \$30.14 advance money.

Plans and Specifications Deposits: While the general ledger account supposedly shows \$1,890.00 to be on hand in this account, the current audit shows that this amount should have been \$1,935.00. It was noted that \$10.00 covering a plan deposit was erroneously sent to the State Treasurer as institution income. It was further noted that three deposits of \$5.00 each and one deposit of \$10.00 had been refunded twice and one refund for \$10.00 had been made on which no deposit had been received. The \$35.00 refunded in error has since been reimbursed and the \$10.00 sent to the State Treasurer has been returned and is now properly recorded.

The foregoing balance in this account of \$1,935.00 represented receipts as follows:

\$	20 00	received in 1946
	35 00	received in 1947
	355 00	received in 1948
	1,525 00	received in 1949
	<u>1,935 00</u>	

Of the \$355.00 received in 1948 the sum of \$60.00 was returned as of July 8, 1949. Of the \$1,525.00 received in 1949 the sum of \$1,175.00 was returned to the bidders as of August 24, 1949.

The balances remaining should be transmitted to the State Treasurer as income and should not be held in this category by the department.

Disallowed Travel Expense - 1937: It was noted that the sum of \$55.26 representing disallowed travel expense for the year 1937 was cleared during the current audit period by a deficiency appropriation.

Cash Book - Patients' Funds: This cash book set up in 1948 to transfer patients' funds out of the State cash book, is not being properly maintained. Entries are in both ink and pencil, columns are not footed and no beginning or ending balances are indicated. There is no reconciliation available with the general ledger control account.

General Ledger: Although an earlier section of this report indicated that a trial balance of the general ledger was taken as of June 30, 1949, this was not accomplished until September 1949 and at that time did not include the "Special" Appropriations Control Accounts. On the date of audit the general ledger had not been posted beyond January 31, 1949.

The following comments made in a previous audit report are hereby repeated as no change was noted in connection with this audit.

- "a. Numerous entries were made in the ledger accounts merely in memorandum form - that is to say, a pencil entry was made in the debit or credit column without reference to its date or origin.
- "b. In a few instances no entry had been made at all to support the balances reported. The balances had been taken-off on note paper taking into consideration entries not as yet made but nothing was reflected in the account.

- "c. The subsidiary accounts were not in proof with the control accounts supporting them.
- "d. Practically all the ledger sheets on the active accounts showed numerous calculations made in pencil to arrive at balances or to take into consideration anticipated entries, etc., resulting in a very untidy record.

"It is suggested in view of the foregoing, that a representative of the Comptroller's Bureau give this Department the necessary instructions in the use of this folio."

Accounts Receivable - Institution Board: As of May 1, 1949 tabulating machines were installed which, it is hoped will speed up board billing processes and other bookkeeping operations. In connection with the installation, old accounts were split up into a so-called "active" group and an "inactive" group.

The "active" group became the basis for machine billing while the "inactive" group remained as a manual operation. It is now the policy of the department insofar as is practical to bill new admissions to the various institutions at the time they enter the hospital.

Department investigators are still working on the old accounts, and, when they are brought up to date, a transfer of the balance due will be made to the "active" group and monthly charges will then be made by the machine bookkeeping operation.

As of audit date, July 7, 1949 the machines had been in operation only about two months. When an attempt was made to reconcile the total cash receipts for the audit period with receipts as shown on each hospital group it was noted that cash totaling \$2,638.10 "active" and \$4,580.28 "inactive" had not been posted as of June 30, 1949.

The \$4,580.28 was later posted to the "inactive" group as of June 30, 1949. The \$2,638.10 "active", however could not be corrected as of June 30, 1949 because trial balances had already been sent to the various hospitals. Part of this cash was posted to the July and August statements and it is understood that at the completion of the audit all cash had been correctly posted.

Reconciliation of Institution Income: The following differences were noted when reconciling Department Institution income with the Comptroller's office.

Monson State Hospital - Cash collected at hospital between May 22, and 31, 1949, in the amount of \$534.39 was correctly forwarded to State Treasurer but no advice was sent to the department. This amount was therefore not posted to the accounts receivable detail for this hospital nor to Institution income ledger account for the 1949 fiscal year.

Northampton State Hospital - Cash collected at hospital in July 1949 received by State Treasurer in July 1949 but posted by him to June 30, 1949 income - amount of \$652.51.

Wrentham State Hospital - Cash collected at hospital in July 1949 received by State Treasurer in July 1949 but posted by him to June 30, 1949 income - amount of \$631.43.

Medfield State Hospital - Cash collected at hospital in May and June 1949 amount of \$3,255.51 not forwarded to State Treasurer until August 1949. Recorded by treasurer as 1950 income, by department as 1949 income.

Machine Bookkeeping - Accounts Receivable and Cash Register: The forms now used in connection with accounts receivable under the new bookkeeping machine system contains four money columns as follows:

1. Balance due last period
2. Charge this period
3. Paid since previous period
4. Balance now due

It was noted that column (3) contained credit adjustments to a patient's account as well as cash received. As combined entries of this nature sooner or later lead to confusion, it was recommended by the auditor that another column be added to this form which will show credit adjustments separately. It is understood that this recommendation has been acted upon and new forms will be made up as soon as possible.

Fractional Adjustments: It was noted, during this examination, that the work in the machine room was considerably hampered by the number of small adjustments made to the patients' accounts because of patients' absences from the various hospitals.

Special Appropriation - Purchase and Installation of Tabulating and Business Equipment: A previous audit report commented on a special appropriation of \$37,000.00 au-

thorized by Chapter 685, Acts of 1947 for the purchase of certain bookkeeping machines for use by the department.

Subsequent to the previous audit, the purchase plan was discarded and bids were accepted for a rental plan. With the awarding of the rental contract it was decided to charge the expenses of installation, cabinets, forms, and the rental of the machines from April 27, 1949 to October 31, 1949 to the special appropriation account and revert the balance. Subsequent rentals and expenses will be assumed as a departmental expense. It was noted that expenditures of \$3,701.19 made during 1948-1949 plus encumbrances of \$3,100.30 or a total of \$6,801.49 were charged to the special appropriation and the balance of \$30,198.51 reverted as of June 30, 1949.

All invoices charged to this account were examined and appear to be proper charges. Equipment such as files, racks, forms, etc., were seen to be on hand. The six machines stipulated in the rental agreement were also seen and are now in operation.

Rental Tabulating Equipment: On December 29, 1948 the Commissioner of Mental Health signed an agreement for rental of six bookkeeping machines at a monthly charge of \$545.20. This agreement runs for one year from April 27, 1949, the date of installation of the machine.

BELCHERTOWN STATE SCHOOL

REPORT NO. 2705

Materials and Supplies: Adjustments made during the audit period were examined and tabulated. Overage adjustments aggregated \$1,320.84 and shortage adjustments aggregated \$659.00. Included in the overages adjustment was an adjustment of fuel amounting to \$419.88.

The analysis of the Materials and Supplies Control Account in the General Ledger indicated an adjustment of \$1,071.34 made in December 1949 to correct errors made in prior months of the current fiscal year. Apparently no proof of the accuracy and agreement of detail records with the control account was made by the institution personnel for the months prior to December 1949.

Attention is called to paragraph 3, page 63 of the Accounting Manual in this regard.

Salvage Sales: Revenue from salvage sales for the period of audit was as follows, according to the records:

Bones and Grease	\$ 345 92	Sold on Bid
Calves, Bulls	3,152 95	Sold on Bid and to 4-H Boys
Hides	305 17	No Bids
Bags	628 63	Sold on Bid
Rags	265 38	Sold on Bid
	<u>\$4,698 05</u>	

Recording of Income Cash Receipts from Board of Patients: The previous audit report commented upon the method of recording cash received for payments of board of patients.

In each of the two previous examinations, this condition was called to the attention of the institution, and it was suggested that the receipts from this source be recorded individually on the date the payment was received by the institution.

An examination of the institution Cash Book for the current audit period showed little improvement in the conditions commented upon in these previous audit reports. The following examples are shown:

1. January 1950 All the receipts from Board of Patients were recorded individually under date of January 5, 1950. Each entry showed a figure after it, which the institution treasurer stated was the date appearing on the check which was received by the institution
2. February 1950 Receipts from Board of Patients were recorded in the institution Cash Book under dates of February 3 and February 17.
3. March 1950 Receipts from Board of Patients were recorded under dates of March 1, March 13, March 18, March 21 and March 31.

The institution treasurer was asked how the cash could be balanced and proved daily with the cash book balance in view of the foregoing. She replied that she had no trouble in this respect. From an examination of the institution cash book, it seems highly im-

probable that the cash could have been balanced and proved daily. In this regard, attention is called to paragraph 5, page 45 of the Comptroller's Accounting Manual, which states:

"The Cash Book Balance should be proved each day with the amount of Cash on Hand and in Bank."

Outstanding Checks: Attention is called to pages 49 and 50 in the Comptroller's Accounting Manual, relative to the procedure to be followed, and the time limit established for outstanding checks drawn against the pay roll bank account.

Use of State Record Ink: Attention is called to the provisions of Section 4 of Chapter 66 of the Tercentenary Edition of the General Laws, as shown on page 70 of the Handbook of the Department of Mental Health, 1944 Edition.

Monthly Financial Reports: The following instances of variances in the monthly financial reports were noted:

1. Page 9 of all reports from July 1949 to November 1949 inclusive were missing
2. Pages 1 and 6, "Total Appropriation Grant, Actual Expense Basis" were not in agreement in the January 1950 and February 1950 reports
3. Page 7, "Income Statement" was not in agreement with the control accounts in the General Ledger in the March 1950 report.

Pay Roll Bank Account: The reconciliation of the pay roll bank account showed that an employee appearing on page 6, block 1, of both the February 1950 and March 1950 pay rolls was credited with wages earned in the pay weeks ending February 11, 1950 and March 18, 1950. The same check number was shown on both pay rolls as having been used to pay this employee.

The employee was charged with having earned wages in each week; and Retirement, Withholding Taxes and Bond Savings deductions were shown as being credited to the employee for each week.

As required by law, monthly reports were filed with the State Comptroller on the status of funds advanced for the payment of these pay rolls. The gross amounts appearing on both the February and March 1950 pay rolls were reported to the State Comptroller on B. S. S. Schedules #420 and #462. The deductions for Retirement, Withholding Taxes and Bond savings were withdrawn from the pay roll bank account and transmitted to the proper agencies. Because of the foregoing the amount of \$35.21 remains uncontrolled in the pay roll bank account and is available for withdrawal.

The time card for this employee was examined and it was noted that this employee was absent from his duties without pay, because of illness, for the pay roll week ending February 11, 1950.

It was further noted that an overpayment of wages in September 1949 was reflected in the pay roll bank account reconciliation of April 3, 1950; although the employee had refunded the amount in October, 1949.

Count of Cash, April 3, 1950: At the time the cash on hand in the treasurer's office was counted, inquiry was made if all cash had been recorded, and if all cash had been offered for audit, and it was maintained that this had been done. However, it was later determined that the institution treasurer had not given all cash for audit at that particular time.

Accuracy of Records: In view of the instances indicated, which are summarized as follows, the accuracy of the cash records is seriously questioned:

1. Uncontrolled funds in the pay roll account available for expenditure.
2. Wages shown as being paid to an employee for which no check was found to have been issued, pay roll week March 18, 1950.
3. Wages shown as being paid to an employee for which no work had been performed, or earned credits available for the employee which could be used for payment and for which a check was issued, pay roll week February 11, 1950.
4. All cash not having been given to the auditor for count and verification.

Funds of Paroled Patients: The earnings and savings of patients on parole are not recorded on the financial records of this institution.

Paroled patients are permitted to keep their bankbooks in their possession and make deposits in their savings accounts. The bank accounts in most cases are in the name of the Belchertown State School, subject to withdrawal by the superintendent or the assistant superintendent. On June 30, 1949 the Social Service Department tabulated the balances in the savings accounts of paroled patients and confirmed the balances by correspondence with the various depositories. This tabulation of 132 bank accounts showed balances aggregating \$45,391.68.

Attention is called to the following recommendations covering the recording of earnings of paroled patients, which have appeared in the previous audit reports:

1. Control accounts be established on the financial records of the institution.
2. Subsidiary records for each paroled patient showing earnings, payments to and/or expenditures made for the patient and the amount of savings of each patient be established.

BOSTON PSYCHOPATHIC HOSPITAL

REPORT No. 2695

Accounts Receivable: It was noted that the balance of accounts receivable as of the date of audit consisted of charges from the following years:

<u>Year</u>	<u>Charges</u>
1950	\$ 406 73
1949	2,211 70
1948	2,548 09
1947	4,004 70
1946	5,127 02
1945	4,948 76
1944	10,639 69
1943	8,489 44
1942	11,082 79
1941	7,678 11
1940 and prior	12,102 43
	<u>\$69,239 46</u>

For purpose of convenience, this institution shows the foregoing accounts for record purposes as follows:

Current Active Accounts	\$11,084 99
Active Accounts	7,887 59
Old Active Accounts	38,998 05
Additional Old Active Accounts (transferred from Suspense)	11,268 83
	<u>\$69,239 46</u>

In an effort to verify this balance 540 verification notices on current balances were sent out during the audit period and 264 were returned by the Post Office unopened with "Address Unknown."

Previous audit reports of this institution's accounts have repeatedly called attention to the large and ever increasing accounts receivable balance and to the fact that very little is being done to correct this situation.

The so-called Old Active ledger, which consists of 1,316 accounts with a balance of \$38,998.05, agrees exactly with the balance on date of the last audit. The balance of the so-called Active ledger consisting of 217 accounts shows no change from the \$7,887.59 balance on date of last audit. The same condition is true of the 656 Suspense accounts transferred to Active with a balance of \$11,268.83.

The previous audit report dated February 8, 1949 recommended "that the Department of Mental Health make a periodic examination of the accounts receivable ledgers kept at the institution, and either attempt to collect these charges, write them off as uncollectible, or transfer them to the Attorney General for collection." As nothing has been done in this regard, attention is again directed to this condition.

BOSTON STATE HOSPITAL

REPORT No. 2700

Funds of Discharged Patients: Previous audit reports have commented on the large

number of ledger cards showing balances for discharged patients. While an effort has been made to dispose of many of these balances, there still remains in this category 304 accounts totaling \$754.75. Only three of these patients discharged during the current audit period failed to take their money with them.

Patients' Funds - Savings Bankbooks: The previous audit report recommended that a memo book be used to record all transactions in patients' bankbooks. This recommendation has been followed.

On the date of audit, there were 75 bankbooks in the custody of the institution treasurer with balances totaling \$20,198.52. There were also bonds, stock certificates, checks and mortgages totaling \$6,721.06 in value.

Salary Overpayments: The report of the previous audit called attention to an overpayment of salary and recommended that it be brought to the attention of the Attorney General for refund. This was done and the money due has been collected.

Escrow Retirement Fund: The escrow retirement fund bank balance included four checks totaling \$52.40 which have been outstanding over a year. These items should be adjusted in accordance with the instructions in the Comptroller's Manual.

Canteen: Entries in the cash sales column of the canteen cash book are prepared from the total cash register readings for the day rather than from the actual cash receipts. It is suggested that the total cash be entered each day.

DANVERS STATE HOSPITAL

REPORT No. 2669

Income: It was noted that income on account of transcripts of patient records is not being transferred to the State Treasurer.

It was explained by institution authorities that the present system in vogue is for employees to make up these transcripts after working hours and thereby receive the fee.

It is suggested that these transcripts of patient records be made during working hours and the fees be transferred to the State Treasurer as income.

FOXBOROUGH STATE HOSPITAL

REPORT No. 2624

Bonds: It was noted that the premiums charged for bonds of the canteen treasurer and two recreation room caretakers were charged to the institutions 1949 maintenance appropriation under object code No. 683.

The cost of these premiums should have been charged to the canteen account.

It is suggested that the Institution Canteen Fund reimburse the Commonwealth for the amount charged for these premiums.

Income: It was noted that an employee of the institution on a partial maintenance status (one meal per day) had received his noonday meal at the institution for the period July 1, 1948 to September 30, 1949, but that no deductions for partial maintenance were made from the pay rolls during this period.

It is suggested that the amount due from this employee be set up as an account receivable and that arrangements be made for collection of this amount due the Commonwealth.

GARDNER STATE HOSPITAL

REPORT No. 2645

Canteen: On the date of the current audit a shortage of \$173.79 existed between the physical inventory and the computed book inventory.

In this connection it was noted that the previous audit report commented on a shortage of \$250.78.

It is suggested that a better control be maintained over this canteen's financial affairs.

GRAFTON STATE HOSPITAL

REPORT No. 2662

State Accounts: The current examination of this institution's accounts was postponed until such time as a representative of the Comptroller's Bureau could visit the institution for the purpose of correcting and recording numerous financial transactions in order that the institution's financial records could be closed for the 1949 fiscal year. This visit was actually made in February 1950.

In this connection it was noted that the personnel of the institution treasurer's office was not entirely familiar with the instructions in the Comptroller's Bureau Accounting Manual.

Pay Roll Bank Account: The previous audit report stated:

"The original pay roll bank account of this institution has not been reconciled since April 1946."

In connection with the foregoing comment it was noted that subsequent to that audit, a new pay roll bank account was opened. It is understood that this old account will be cleared out.

Canteen Accounts: General ledger accounts for the Canteen financial transactions are not maintained.

In this connection it was noted that in order to prepare certain financial statements and inventory comparison it was necessary to accept memoranda furnished by the canteen.

This condition was discussed with the superintendent who on January 30, 1950 wrote the Department of Mental Health relative to this matter. To date of the completion of this examination, March 10, 1950, no reply had been received to this letter requesting information.

Unclaimed Funds: The sum of \$29.64 was found in the treasurer's office safe by the current institution treasurer. This money could not be identified not could it be determined how long this amount had been in the office safe. It was suggested that authorization be given to the institution treasurer to record it on the institution records and that it be forwarded to the State Treasurer as miscellaneous income.

MEDFIELD STATE HOSPITAL

REPORT No. 2709A

Income: Charges on account of food overdrafts for the period ending September 30, 1949 have not been set up as accounts receivable as of date of audit.

It is suggested that all these charges be properly entered.

Materials and Supplies: It was noted that five new tires and eleven new tubes have been charged off the records as expenses although they are still in the institution store-room.

It is suggested that these items be brought back into the materials and supplies account and be requisitioned when actually issued for use.

Patients' Funds: The trial balance of Patients' Funds includes many items of discharged and transferred patients, and several accounts of deceased patients that have passed the seven year period.

It is suggested that an effort be made to locate these discharged and transferred patients so that the amounts may be properly transferred. It is further suggested that a system be installed whereby all discharged and transferred patients will clear through the Treasurer's Office before they leave the institution.

It is further suggested that all amounts of deceased patients that are older than seven years be turned over to the State Treasurer in accordance with statute.

METROPOLITAN STATE HOSPITAL

REPORT No. 2722

Accounts Receivable Ledger: It was noted that the control accounts receivable does not include the following types of income:

Board of Patients
Telephone Commissions
Interest on Patients' Funds
Lost Keys and Manuals

While the audit was in progress, this matter was brought to the attention of the proper personnel and the necessary accounts were thereupon opened.

Food Overdrafts: There are four items of food overdrafts dated back to 1948 and totaling \$587.40 which are still outstanding. These represent the following:

B. R.	\$296 98
C. B.	38 99

M. A.	\$143 46
S. W.	108 07
	<u>\$587 40</u>

It is suggested that a serious effort be made to affect collection of these items. If this is unsuccessful, the Attorney General should be informed of them for necessary action.

Charges for Maintenance of Employees: Although receipts from this source totaled \$47,831.00 for the period under audit, it was impossible to audit the account because of the lack of records. There are no records available indicating who occupied the various rooms and houses as of October 1, 1949 when the present system of charging rents was begun.

This matter was discussed with the steward and treasurer. It is understood that as of July 1, 1950, a card system will be established showing the room number, the rate of rentals and the change in occupants together with the necessary dates.

Stock Ledger Adjustments: It was noted that stock ledger adjustments were made in certain cases without the prior approval of the superintendent or steward.

Patients' Funds: Wide variations in dates between the time funds for patients are received at the institution and the dates they are entered on the cash book were noted. These include the following:

<u>Receipts Slips</u>	<u>Amount</u>	<u>Received</u>	<u>Cash Book Entry</u>
5022-38	\$18 51	8/30	9/12
-31	2 00	8/18	8/29
-11	14 16	8/4	8/15
-34	1 15	8/22	9/12
5028-25	1 07	11/15	11/29
-17	13 26	11/11	11/29
4810-42	18 79	6/5	6/22

It was also noted that certain receipts were entered in the cash book at a date earlier than the date of receipt. One particular case was noted in which \$10.00 and a watch was taken from a patient on July 14, 1949. On July 21, 1949, both were turned over to his son apparently by the party who originally received them. These articles did not pass through the treasurer's records as she apparently was not aware of the transaction.

Escrow Retirement Fund: The cash book for this fund is not properly handled. The debit side shows the difference between the pay roll deductions and the amount sent to the Retirement Board. This occasionally causes a red figure to appear on the debit side.

Although the original instructions for the handling of the Escrow Retirement Fund provided for a separate bank account, it was not until October 27, 1949 that this was done. Prior to that date all transactions were handled through the pay roll fund.

In order to verify the balance in the escrow fund account, it was necessary to completely analyze all these transactions as shown on the pay rolls.

The correct manner of handling this account was discussed with the institution treasurer.

Canteen: When an article sold in the canteen can be given a definite retail selling price, it is handled through the canteen account, otherwise it becomes a cafeteria item. For example, ice cream is chargeable through cafeteria while pies are chargeable to the canteen inventory. This results in confusion since certain items which would ordinarily be part of the canteen inventory are handled as cafeteria charges, and causes difficulty in the proving of sales through inventories.

In checking the selling prices of various articles purchased, errors were noted which will have the following effect when changed:

	<u>Originally Charged</u>	<u>Should Be</u>		<u>Operating Expenses</u>
		<u>Canteen</u>	<u>Cafeteria</u>	
Canteen	\$5,388 62	\$5,271 41	\$47 82	\$ 69 39
Cafeteria	47 31	17 11	-	30 20
Benefits	29 70	-	-	29 70
	<u>\$5,465 63</u>	<u>\$5,288 52</u>	<u>\$47 82</u>	<u>\$129 29</u>

Canteen Tickets for Patients: The previous audit report commented on the practice of selling canteen tickets to the patients at less than the face value of the ticket and punching out the unsold part of the ticket. This practice still exists and it is again advised that the condition be changed.

MONSON STATE HOSPITAL

REPORT No. 2618

Income: Included in the balance of outstanding Accounts Receivable is an amount of \$80.27, which represents an overdraft of food allowance to a former member of the hospital staff, who resigned in February, 1949. The last issue of food to this individual was in November, 1948. It is suggested that this matter be brought to the attention of the proper officials so that settlement may be effected.

Materials and Supplies: Materials valued at \$31,376.73 were inventoried on August 30, 1949. Shortages of \$272.11 and overages of \$364.02 were noted.

Repairs and Renewals: At the time of the inventory of materials and supplies, it was noted that there were materials on hand which were not included in the values reflected in the Material and Supplies account and corresponding stock ledger detail accounts.

From discussion with the Chief Engineer and the Superintendent it is understood that these are materials purchased for the following Repairs and Renewals projects:

- (1) Installation of Hydrant: Materials for this project were purchased in 1941 or 1942. Materials on hand were estimated to have a cost value of \$2,000.00. These materials were purchased for the installation of a fire hydrant at the institution storehouse and power plant. There is no fire hydrant located near this building.
- (2) Steam Fitting: Materials for this project were purchased in 1941 or 1942. Materials on hand were estimated to have a cost value of \$2,500.00.

The Chief Engineer could give no estimated time of completion for this project.

Renovation of Kitchen in Superintendent's Home: At the time of the inventory of Materials and Supplies, it was noted that there was a new electric kitchen range on hand which was not included in the Materials and Supplies account and corresponding stock ledger accounts.

Upon verifying an analysis of all expenditures charged against sub-division-00-15 of the 1949 fiscal year Maintenance Appropriation, it was found that the kitchen in the Superintendent's home was being renovated. This renovation was discussed with both the Chief Engineer and the Maintenance Foreman and the estimated cost of Materials and Labor was as follows:

1 Steam, Plumbing and Electrical Work, etc.	\$ 900 00
2 Carpentry, Paint, etc.	1,450 00
	<u>\$2,350 00</u>

An examination of purchase orders and/or requisitions on file in the steward's office showed:

1 Steam, Plumbing and Electrical Work, etc.:		
Stainless Steel Sink	\$357 88	Charged to
		00-12
		Repairs
Electric Stove	320 00	00-15
		Equipment
Fluorescent Fixtures Est.	70 00	00-12
		Repairs
Exhaust Fan and Ventilator	62 80	00-12
		Repairs
Electric Clock	4 65	00-06
		Housekeeping
Outlets	-	Supplies
Radiator	-	-
	<u>\$815 33</u>	
Labor:		
Balance to Estimated Cost	84 67	
	<u>\$900 00</u>	

2 Carpentry, Paint, etc.:		Charged to
New Kitchen Cabinets, New Tile		00-12
Board, New Cougher Tops	\$ 900 72	Repairs
Labor, Estimated	500 00	
Other Materials, Estimated	55 00	
	<u>\$1,455 72</u>	

No request for this work, aggregating approximately \$2,500.00, was found in the 1949 fiscal year budget requests.

An analysis of charges of the above purchases against fiscal year appropriations showed:

1949 Maintenance Appropriation	\$1,283 52
1950 Maintenance Appropriation	432 53
	<u>\$1,716 05</u>

This is probably contrary to the provisions of Section 27 of Chapter 29 of the Tercenary Edition of the General Laws as provided by Section 2 of Chapter 636 of the Acts of 1947 which states:

"Section 27 - Notwithstanding any provision of General Law, no officer or board shall incur a new or unusual expense... unless an appropriation by the general court and an allotment by the governor, sufficient to cover the expense thereof, shall have been made..."

Farm: The Twenty Ninth Annual Report (preliminary) of the Massachusetts Department of Mental Health, states in part:

"IX. FARM SERVICE

"This service, while being used some as an occupational outlet for patients, is primarily conducted to supplement the food service as an economy measure and as a means of supplying fresh produce to patients in amounts which otherwise would not be possible....."

For the financial year ending June 30, 1949, the records of the institution treasurer showed the following appropriation disbursements and credits from farm operations:

Appropriation Disbursements:		
Personal Services	\$24,558 39	
Other Expenses	<u>23,621 44</u>	\$48,179 83
Credits:		
Farm Products to Storeroom	\$22,582 32	
Farm Sales	<u>921 29</u>	23,503 61
Excess of Disbursements over		
Farm Credits		<u>\$24,676 22</u>

The annual farm report for the year ended December 31, 1948 showed a loss of \$16,339.58, exclusive of inventories, which was an increase of \$10,089.58 over the preceding year.

Spoilage of \$313.68 and shrinkage of \$534.30 as shown in the annual farm report, were not included in the loss of \$16,339.58 shown above.

Patients' Funds: There were \$103.66 in funds of discharged patients and \$.45 in funds of deceased patients on hand August 1, 1949.

There were United States Savings Bonds with a principal value of \$575.00 and savings bankbooks with balances aggregating \$707.85 on hand August 1, 1949.

Canteen: The Canteen at this institution is operated under authority of Regulation No. 14 of the Handbook of the Department of Mental Health.

Item 4 of Regulation 14 states:

"Any profit derived from Canteen sales conducted by the institution shall be expended for the benefit of patients and employees under the direction of the superintendent and subject to approval of the Department."

The amount of \$814.64 recorded on the Canteen Cash Book as disbursements for Benefits to Patients was analyzed and it was found that of this amount there were disbursements aggregating \$331.56, for which no departmental approval was seen. A tabulation of this

amount is shown:

Entertainments, Materials for Shows, etc.	\$ 96 56
Records, Rentals of Films, Camera Equipment, etc.	81 16
Patients' Parties	25 29
Musician, three months	15 00
Colored Cards	21 00
6 Watches and 4 Pens	30 60
Canteen (no invoice on file at institution)	61 95
	<u>\$331 56</u>

It was also noted that merchandise amounting to \$106.96, at selling prices, had been issued to patients as prizes during the months of May, June and July, and were not recorded on the Canteen Cash Book.

It was also noted that merchandise issued by the Canteen as prizes at Patients' Parties were recorded at selling prices.

Adjustments of monthly inventories had not been made in accordance with instructions contained in Item 10 of Regulation 14.

While it is recognized that the responsibility for Canteen operations is placed with the Superintendent, it is felt that the management of the Canteen would improve if the accountability for purchases and expenditures of any and all types, is placed upon one individual, and the operations of the Canteen be in conformity with and adherence to the provisions of Regulation No. 14.

Nurses' Training School Fund: Attention has been called to this fund in previous audit reports which recommended that this fund revert to the State Treasurer. In this connection an opinion was requested of the Attorney General under date of March 3, 1943, with reference to the disposition of this fund. The Attorney General's opinion reads in part:

"...it appears that the fund in question should not be turned over to the State Treasurer, nor should it be applied at the present time to any particular use until such time as a judicial decree has been rendered with respect to its application."

During the period under examination the only activity in this account was the receipt of interest on the savings account.

The balance in this fund was \$1,183.81 on August 1, 1949.

DIVISION OF MYLES STANDISH

REPORT No. 2652

Special Appropriations: Since June 30, 1948, the bookkeeping for special appropriations has been done in the Department of Mental Health, therefore, these accounts were not examined in connection with the examination.

Financial Reports: Several clerical errors were noted in the monthly financial reports. These were brought to the attention of the institution treasurer.

Farm Accounts: Many discrepancies were noted in the farm ledger and in the other subsidiary records which serve as the basis for the preparation of the Annual Farm Report.

Comparison of the Farm Report with the farm control accounts in the General Ledger indicated several errors. Among these differences were the following:

The farm storage balance (inventory) as shown in the Farm Report did not agree with the Farm Storage control account in the General Ledger in the amount of \$1,615.73.

The farm production as reported in the Farm Report does not agree with the Farm Production control account in the General Ledger in the amount of \$713.86.

The farm products used as reported in the Farm Report did not agree with the Farm Products Used control account in the General Ledger in the amount of \$900.67.

The farm products transferred to the storeroom as reported in the Farm Report did not agree with the Farm Products to Storeroom control account in the General Ledger in the amount of \$31.99.

The differences between the farm control accounts in the General Ledger and the Farm Report could not be reconciled as the farm ledger and subsidiary records which serve as a basis for the Annual Farm Report did not include all necessary entries.

It was also noted that many errors existed in the monthly Livestock Census Reports. It was further noted that the farm tractor cost was not properly distributed to the many respective projects.

The Farm Storage balance in the General Ledger and the Farm Ledger should also be brought into agreement.

In view of the foregoing it is suggested that the Comptroller's Bureau arrange that the institution personnel be instructed in the proper handling of the farm accounts.

NORTHAMPTON STATE HOSPITAL

REPORT No. 2641

General Ledger: The accounts in the general ledger were not in balance as of August 31, 1949. Errors in postings from books of original entry during the month of July 1949 affected the following accounts:

1. Accounts Receivable and Related Accounts
2. Maintenance Appropriation and Related Accounts
3. State Treasurer Fund Accounts

It was also noted that monthly journal entries did not, in all cases, contain sufficient supporting information to explain reasons for entries which had been made.

Maintenance Appropriation Section 00-15, Equipment: An amount of \$170.20, representing a balance in the 1948 Accounts Payable, Materials and Supplies Suspense, was charged against this section of the 1949 Maintenance Appropriation, as of May 31, 1949. This amount should have been recorded as a reduction of the materials and supplies inventory of July 1, 1948.

There was an amount of \$361.62 expended for certain items of Dairy Equipment, for which no authorization was seen.

Income: The Income Statement shown on Page 7 of the August 31, 1949 financial report did not reflect the entries made in the Accounts Receivable account and/or the balances of unpaid accounts as shown by the Accounts Receivable account in the General Ledger.

The Accounts Receivable account in the General Ledger showed a credit balance of \$371.15, whereas the Income Statement showed a debit balance of \$405.28.

Salvage: The following schedule shows the revenue recorded as having been received from salvage sales:

Horses	\$ 18 43	Sold to highest bidder
Cows and Calves	473 61	Sold to highest bidder
Calves	15 00	Sold to 4-H Club member
Keys	6 25	Replacements to employees
Scrap Metal, Rags, Bags, etc.	564 01	Sold to highest bidder
Wood, Cord	36 00	Sold to employees, no bids
Old Furniture, Old Drum	3 50	Sold to employees, no bids
	<u>\$1,490 72</u>	

Materials and Supplies: There was a difference between the control account in the institution treasurer's General Ledger and the trial balance of the detail accounts in the Stock Ledger.

A test inventory was taken on September 29, 1949. Overages of \$183.77 and shortages of \$151.88 were noted on inventoried items valued at \$46,428.56.

Farm: The following excerpt is taken from the Twenty-Ninth Annual Report (Preliminary) of the Department of Mental Health:

"IX. FARM SERVICE"

"This service, while being used some as an occupational outlet for patients, is primarily conducted to supplement the food service as an economy measure and as a means of supplying fresh produce to patients in amounts which otherwise would not be possible."

A comparison of cash expenditures for farm expenses and the values of farm products to storeroom and farm sales was made. This comparison showed:

Expenditures:		
Personal Services	\$46,628 65	
Other Expenses	<u>51,499 15</u>	\$98,127 80
Credits:		
Farm Sales	\$ 8,823 69	
Farm Products to Storeroom	<u>46,656 54</u>	55,480 23
Excess of Expenditures over Credits		<u>\$42,647 57</u>

Patients' Funds: A variance of \$63.57 between the detailed listing of individual accounts and the cash book balance of September 1, 1949 was noted.

An error of \$64.79 in addition of the Cash Book in August 1949 was noted.

Previous audit reports included a recommendation that the Comptroller's Bureau set up a Trustee Account in the financial records of this institution for the control of patients' bankbooks.

A tabulation of bank account balances, war savings bonds, gold and notes on hand, September 1, 1949, showed the following:

Bank Accounts	\$16,781 19
War Bonds and Stamps	651 00
Gold	20 00
Miscellaneous Notes	54
	<u>\$17,452 73</u>

Of the bank accounts included above, there were bankbooks with balances aggregating \$2,368.77, which were not subject to withdrawal by the individual patient, among whose personal effects the bankbooks were found.

As to date, no trustee accounts have been set up on the control records, attention is again called to the recommendation.

During the current examination it was noted that an attendant while on duty took, on or about September 7, 1949, \$450.00 from patient number 19045 for deposit with the institution treasurer. It is noted, however, that this amount was not received or credited to the particular patient's account until December 2, 1949.

Canteen: An expenditure of \$200.20 for the purchase of shoes was charged in error to the Canteen. This expenditure was authorized by the Board of Trustees to have been made from the Lillian A. Willett Trust Fund.

TAUNTON STATE HOSPITAL

REPORT No. 2672

Maintenance Stores: The personnel situation has improved somewhat over the past several years. This institution has not had a competent storekeeper since June 1943, and has had to depend on patients as laborers for the most part.

The test inventory taken on the date of the current audit showed many differences. In some cases, the differences appeared to be abnormal. It was learned that adjustments had not been made because it was considered useless until the personnel situation improved. Certain accounts have not been adjusted for approximately two years.

Since the beginning of this audit a permanent storekeeper has been appointed and the necessary adjustments were made. It is now hoped that henceforth conditions in the store will return to normalcy.

House and Room Rent: It is suggested that a house and room register be installed to provide a more efficient accounting record. The present records are inadequate, and consequently, this income could not be satisfactorily checked.

Farm Accounts: It was noted that the farm reported an over-all loss of \$7,648.20 for the year 1948. This was attributed to the high purchase price of grain and supplies, and the excessively low prices it credited for products.

The examination of the farm record for 1948, as in 1947, indicated a very high mortality rate for shoats and pigs. The cause of these deaths, according to veterinarian's report on file, was necrotic enteritis (swine dysentery) the virus of which is endemic on the farm land.

In view of the above condition the 1949 and 1950 swine census reports were reviewed and they likewise showed a very high mortality rate. The deaths in the swine herd for the first twenty-six days in January 1950 totaled 82.

It was learned from the Farm Coordinator that due to this extraordinary condition the swine project will temporarily be discontinued. It is probable that this may involve a permanent curtailment.

In addition to the heavy loss of pigs by epidemic the head farmer reported on September 29, 1949 that there were 113 pigs missing. This incident was reported to the State Police. As of date of audit, however, the cause has not been determined.

WALTER E. FERNALD STATE SCHOOL

REPORT No. 2647

Farm: Farm records of sales, costs and farm products to institution for the 1948 farm year did not reconcile with the institution financial records.

This was explained by the institution head farmer as being caused by the frequent changes of farm clerks during the 1948 farm year that records were poorly kept, but that the present farm clerk is capable.

It is suggested that these records be reconciled monthly so that the annual farm report will be in agreement with the institution financial records.

Family Maintenance Withdrawals: A letter from the Commission on Administration and Finance dated September 21, 1949, but not received at this institution until September 30, 1949, indicated that Chapter 810 of the Acts of 1949, providing for payment of cash in lieu of maintenance would become effective October 1, 1949.

An analysis of the withdrawals of food by certain of the family maintenance employees of this institution for the month of September 1949 showed that some employees exceeded their normal allowances.

In this connection it was noted that an employee who ordinarily withdrew approximately 25 pounds of meat per week, withdrew 63 1/2 pounds of meat during the last week of September 1949, 43 pounds of which was withdrawn on September 30, 1949.

Another employee normally withdrawing approximately 28 pounds of meat per week, withdrew 45 1/2 pounds during the last week in September, of which 34 pounds was withdrawn on September 30, 1949.

Another employee withdrew a full tub of Surplus Commodity Peanut Butter weighing 40 1/2 pounds at a cost of \$.35 on September 30, 1949. This employee has only two in his family.

Total allowances for nine family maintenance employees for the month of September was \$552.50, while withdrawals for the month of September totalled \$781.45 - the withdrawals exceeding the allowances by \$230.83.

WESTBOROUGH STATE HOSPITAL

REPORT No. 2708

Farm Records: The farm report for the 1949 farm year was prepared by the institution and sent to the Department of Mental Health for approval. It is understood that this report has been misplaced or lost, therefore, was not available for auditing purposes during this current examination of the institution's accounts.

WORCESTER STATE HOSPITAL

REPORT No. 2679

Medical Facilities Available to Community: In this connection the previous audit report stated:

"Item 1 of Regulation No. 16 of Department of Mental Health states:

"The special medical facilities of the institution may in unusual circumstances be made available to persons in the community upon the request of a physician, at the direction of the Superintendent. The charge for this service shall in no instance be less than the cost thereof and shall be credited to income."

"An Electroencephalograph machine located at this institution is used for brain wave tests, so-called E. E. G. tests.

"These tests are given by a part-time employee of the Commonwealth and a technician who is not an employee of the Commonwealth.

"It was ascertained that the amount of \$1,674.00 was collected for the E. E. G. tests given at this institution to other than hospital patients and this entire amount was given directly to the private organization which employs a technician assisting in giving these tests.

"The entire proceeds from this activity represents income due the Commonwealth and must be reported as such and forwarded to the State Treasurer. If the services of this technician are necessary and desirable he should be employed, through regular channels, as a part-time or full-time employee of the Commonwealth and paid through proper and authorized State pay rolls."

In connection with the foregoing comment it was noted that this income had not been turned over to the State Treasurer to date of this current audit.

In further connection with this type of income it was noted that notwithstanding the fact that the Superintendent of the hospital indicated during the course of the previous audit: "...that he had ordered the practice of giving E. E. G. tests to persons other than hospital patients be discontinued." this practice still exists.

In this connection it was also ascertained that during this audit period, May 4, 1948 to January 10, 1949, the further sum of \$1,365.00 was collected for E. E. G. tests which had not been reported as income on date of audit.

It was further ascertained that during this audit period an additional amount of \$755.00 was collected for E. E. G. tests which had not been reported as income by this institution.

The following schedule shows the amounts collected during the past three audit periods which have not been recorded as income on the institution's records:

<u>Audit Period</u>	<u>Amount</u>
April 28, 1947 to May 4, 1948	\$1,674 00
May 4, 1948 to January 10, 1949	1,365 00
January 10, 1949 to February 6, 1950	755 00
	<u>\$3,794 00</u>

In connection with the foregoing it is noted that this amount was determined from data submitted by the Director of a private organization who stated that the information was taken from the records of that private organization.

In further connection with E. E. G. tests given at this hospital it is of interest to note that in January 1950 a collection of \$2.00 was made for a E. E. G. test which was recorded as institution income.

State-Owned Laboratory Supplies and Equipment Issued to Laboratory Then Turned Over to a Private Organization: During the course of this examination it was learned that certain laboratory supplies and equipment, which were purchased from the institution's maintenance and dementia praecox research appropriations and had been issued from the institution's pharmacy or storeroom to the institution's laboratory, had been turned over to a private organization.

There is a memorandum record kept at the institution's laboratory of the supplies and equipment issued to that private organization. There is also on file an invoice from a laboratory supply firm in the amount of \$102.63 for supplies which according to that invoice were purchased from dementia praecox research appropriations. There are notations on these invoices which indicate that at least some of these supplies went to that private organization.

This private organization is the same one referred to as receiving the \$3,794.00 collected for E. E. G. tests given at this institution.

In discussing this matter with the institution's superintendent, he stated that he had received verbal permission from the Commissioner of Mental Health to furnish this private organization with these supplies and equipment.

The legality of turning over State purchased equipment and supplies to a private organization is questioned.

Dementia Praecox Research Pay Roll: An examination of the pay rolls and other supporting data indicated that in many instances pay roll checks were drawn in excess of the amount due to employees. In some instances refunds were made while in other instances refunds have not yet been made.

The following receipt vouchers show the type of refunds which have already been made:

E. H. R.	Refund for period August 15, 1949 through December 31, 1949	\$1,262 71
	(Dementia Praecox)	
	Absent: (48 hour week)	
	Aug. 15 days @ \$17.037	\$ 255 56
	Sept. 20 days @ \$17.6923	353 85
	Oct. Month (entire)	460 00
	Nov. 9 days @ \$17.6923	159 23
	Dec. 2 days @ \$17.037	34 07
	Total Amt. Due Commonwealth	<u>\$1,262 71</u>

Checks enclosed	\$1,055 25	
Ret. due Commonwealth	63 14	
Tax due Commonwealth	144 32	\$1,262 71

Please credit 1702-00-01, Code 101

N. G. Refund for period Dec. 1 - 31, 1949 \$295 00
(Dementia Praecox)

Gross Amt. for Dec.	\$295 00
Due for Nov.	27 73
Gross Amt. on P. R.	\$322.73
Ded. on P. R.	32 50
Amt. of check enclosed	\$290 23
Blue Cross	5 50
	\$295 73
Tax due Commonwealth	27 00
	\$322 73
Gross Amount on P. R.	\$322 73
Refunds for abs. for Dec.	295 00
Amt. due for Nov.	\$27 73
Blue Cross Deduction	5 50
Amt. due Employee	\$22 23

Please make check payable to employee for \$22.23.
Please credit 1702-00-01, Code 101

E. H. R. Refund for following absences to be deducted from
January pay roll: \$180 00
(Dementia Praecox)

Abs. Mo. of Oct.	\$120 00
Abs. 9 days Nov. @ 5.4545	49 09
Abs. 2 days Dec. @ 5.4545	10 91
	\$180 00
Gross Amt. on Pay Roll	\$360 00
Refund	180 00
Gross Amt. due employee	\$180 00
Less: Retirement \$9 00	
Blue Cross 3 25	12 25
Amt. of Check to Employee	\$167 75
Gross Amt. on Pay Roll	\$360 00
Deductions on Pay Roll	42 45
	\$317 55
Amt. due Employee	167 75
	\$149 80
Tax due Commonwealth	21 20
Retirement due Commonwealth	9 00
	\$180 00

Please make check payable to employee for \$167.75.
Please credit 1702-00-01, Code 101

In connection with the uncollected salary refunds reference is made to a leave of absence without pay granted to the Director of Psychological Research for the period from June 20, 1949 to June 30, 1949 and July 22, 1949 to August 14, 1949 for which time this employee was paid. It is understood that refunds in these instances are pending.

There are no weekly time reports available at the institution from which the monthly time sheets are made up. The institution employee who is in charge of these time records stated that "while weekly time reports are sent to her office they are used for scrap paper and discarded after the monthly time sheets are made up."

It is suggested that the Commission on Administration and Finance survey the following:

1. The procedure used by the Department of Mental Health in making

up the monthly pay rolls

2. The accuracy of the foregoing referred to pay roll refunds, especially in view of the fact that there are no weekly time reports on file at the institution, that the Director of Psychological Research did not withdraw food supplies from June 20, 1949 to September 12, 1949 and from September 19th to September 30, 1949, that all vouchers supporting payment from a Federal Grant subsequent to May 31, 1949 were not approved by this employee, that this employee taught a summer session at the University of Wisconsin, that another employee deposited the pay roll checks for June and July 1949 for him, he not being available to receive the checks, that the August 1949 pay roll check was given to the employee's wife and that an employee refused to accept the September 1949 pay roll check because he knew that the Director of Psychological Research pay roll check was too large

3. The failure to keep on file weekly time reports, weekly time reports were made out but were not available for auditing purposes

4. The failure to use pay roll symbols on the monthly time sheets on file at the institution

5. The full time employee who is also on the pay roll of a college located in Worcester, Massachusetts

6. The time actually worked by the part time employees on this pay roll

7. The legality of the compensatory time allowed certain employees on this pay roll

8. Vacation given to an employee while on leave of absence from June 20, 1949 to June 30, 1949 and from July 22, 1949 to August 14, 1949

In connection with the foregoing comments it will be noted that the responsibility of the accuracy of the Dementia Praecox Research Pay Roll rest upon the Department of Mental Health. This pay roll does not come under the jurisdiction of the Worcester State Hospital Treasurer's office.

Accounts Receivable: The following schedule shows the unpaid amounts owing by certain institution employees on the date of audit.

<u>Employee</u>	<u>Date of Charge</u>	<u>Account of</u>	<u>Amount</u>
A	October 1949	Food Overdraft	\$ 24 71
B	October 1949	Food Overdraft	66 91
C	October 1949	Food Overdraft	45 12
D	October 1949	Food Overdraft	12 12
E	October 1949	Food Overdraft	14 82
F	October 1949	Food Overdraft	16 26
G	June 1949	Maintenance	315 00
H	November 1949	Maintenance	74 80
I	November 1949	Maintenance	27 40

It will be noted from the foregoing that one of the unpaid accounts dates back to June 1949.

It is suggested that immediate steps be taken to collect these accounts.

Verification notices were mailed to the foregoing employees, and replies were received from all except three.

Maintenance Charges: It was noted that a person not employed by the Commonwealth is living at the institution and also purchases meal tickets for use in the administrative staff dining room. This would seem to be in violation of the rules and regulations established by the Commission on Administration and Finance as indicated in Administrative Bulletin No. 112 which reads, in part, as follows:

"The Rules and Regulations Governing Employee Feeding at State Institutions are hereby amended by adding the following new rule:
Rule 8. "An employee may purchase meal tickets for use by non-employee members of his immediate family, only when said members are residing with the employee in non-housekeeping facilities upon institution property. Husband, wife, children and dependent parents, shall, for the purposes of this regulation, be the only persons considered as members of the immediate family. No other non-employee

relatives or friends of employees shall be eligible to eat in institution dining rooms."

Purchase of Rug and Equipment from Federal Grant: Following is a partial list of equipment and furnishings purchased from funds of a federal grant:

1	710 B Recorder Amp. Corp. of America	\$355 00
1	Fostage Indicator	11 90
1	810 B Twin-Trax Recorder	285 00
1	600 D E Z Cue Attachment	11 90
12	Scotch Plastic Tape	58 40
1	AY-3 Assembly Rug 9x15.9	123 67
1	Rubber Padding 3/16 9x15.9	23 62
	Labor	11 25
1	Ditto Machine Model D-10	149 50
1	Microphone	52 50
1	Loudspeaker	17 50
1	755 A Speaker	14 45
1	633 A Microphone	52 50
1	755 Speaker	14 45
	Electric Light Fixtures	202 93

In connection with the foregoing purchases note the purchase of a rug and the labor cost. This rug covers the entire floor area. Also note the purchase of electric light fixtures.

During the course of the examination of the accounts of the federal grants at this institution, the question arose as to legal ownership of this equipment and furnishings in the event the federal grant was withdrawn.

It is suggested that the Commission on Administration and Finance survey the procedure in vogue in the purchases of equipment, furnishings and fixtures. It is also suggested that an inventory be kept of such purchases. At the present time the purchases are made by the Director of Psychological Research and no inventory is kept.

An examination of the invoices supporting the foregoing purchases showed that in only two instances has the superintendent of the hospital approved the invoices for payment.

WRENTHAM STATE SCHOOL

REPORT No. 2678

Patients' Bankbooks: It was noted that there were eight patients' bankbooks in which incorrect postings had been made by the bank. These books were sent to the bank by the institution treasurer and the errors were corrected.

Farm: The 1949 farm report showed a substantial loss of pigs because of deaths and stillbirths. In 1949 the total number of pigs farrowed was 328 and of these 5.8% were stillborn and 48.4% died making a loss of 54.2%. There was also a large loss of pigs through death and stillbirths in the 1948 farm report. This matter was discussed with the institution officials and no adequate reason was given for this condition. It is suggested that the farm coordinator in the Department of Mental Health look into this situation.

METROPOLITAN DISTRICT COMMISSION

REPORT No. 2615

The previous audit report stated:

"Cash: It is suggested that all cash received be entered in the cash book the day it is received, and deposited in the bank the same day. Cash disbursements should be entered daily, and a cash balance should be drawn off each day."

It was noted that this suggestion has been adopted.

The previous audit report stated that there was a balance of \$21.14 in the First National Bank of Boston representing a balance turned over to the Commission by the former Metropolitan Water Supply Commission and the audit report contained a suggestion that this balance be brought on the books and turned over to the State Treasurer. It was noted that this was done on May 31, 1949.

Accounts Receivable: Referring to accounts receivable the previous audit report stated:

"At present, accounts receivable which have been referred to the Attorney General for collection are carried on the books of the Commission within the regular accounts receivable account. It is again suggested that all accounts with the Attorney General for collection be set up in a Suspense Accounts Receivable in accordance with instructions contained in the Accounting Manual issued by the Comptroller's Bureau."

It was noted that this suggestion has been adopted.

Referring to accounts receivable the previous audit report suggested that all accounts over one year old be referred to the Attorney General. It was noted that this has been done.

Pay Rolls: The previous audit report stated:

"Pay Rolls: At present pay rolls and time reports are signed, but there is no certification by the officials of the amount of time worked by the employees indicated. It must be assumed therefore that the signature means certification. It is suggested that a statement be attached to pay rolls and time reports, signed by responsible department heads certifying that the working time reported for any day represents time actually worked for that day, and that time not worked has been charged to leave accounts in accordance with the statutes or regulations."

It was noted that this suggestion has not been adopted.

The previous audit report stated:

"It would appear that certain pay roll checks were endorsed by someone other than the person to whom the check was drawn. The first endorsement on all checks should be by the person to whom the pay roll check was drawn."

It was understood that this matter has been called to the attention of the employees but in spite of this the same situation prevailed during the current audit period.

Glenwood Yard-Obsolete Stock: The previous audit report noted that during the test check made of materials and supplies on hand at this yard that many items of stock were considered obsolete and the previous report contained a suggestion that the obsolete stock be disposed of through the State Purchasing Bureau. As this suggestion has not been adopted, attention is again called to it.

Control Account for Materials and Supplies in General Ledger: There is no control account carried in the general ledger for materials and supplies on hand in the storage yards and it is again suggested the Comptroller's Bureau be requested to provide such an account.

Contracts: In the previous audit report it was noted that some contracts of over \$1,000.00 were not accompanied by adequate performance bonds. This condition has now been corrected and all contracts were accompanied by adequate bonds.

In only one instance was a contract awarded to other than the low bidder of record. Contract 593 was awarded to the second lowest bidder at \$14,749.75 because the low bid of \$10,860.40 was withdrawn due to an error in figuring by the contractor.

Comptroller's Closing Entries: The previous audit report stated:

"The closing entries for the fiscal years 1946, 1947 and 1948 had not been received by the Commission as of the close of the current audit."

It was noted that during the current audit period the closing entries for the 1948 fiscal year were received but not those for the fiscal years of 1946 and 1947. Also the closing entries for the 1949 fiscal year had not been received.

DEPARTMENT OF PUBLIC HEALTH

General Department

REPORT No. 2642

Checks Held in the Accounting Office: Several items of cash were being held in the

office on October 3, 1949 awaiting further information before the entries could be completed. These items included:

Cold Storage License Fees - 2 at \$10.00	\$20 00
Check dated 9/26/49, awaiting correct name of licensee	
Check dated 8/4/49, awaiting inspection, building not completed	
Alcohol License Fees - 2 at \$10.00	20 00
Check dated 9/27/49, awaiting return of application	
Check dated 9/29/49, form returned for correction	
Soft Drink License Fee - Local	10 00
Check dated 9/16/49, awaiting additional information	

A check for \$10.00, dated June 7, 1949 and drawn on the Rockland Trust Company had been returned by that bank with the notation "Account Closed", and was also being held in the accounting office. It is suggested that steps be taken to complete this transaction.

A check for \$39.00, dated July 6, 1949, was being held in the Department accounting office. The check was for full reimbursement for estimated damage to a State car involved in an accident in Belchertown on June 3, 1949. This check is being held awaiting the final bill for actual repairs to this car.

When the Division of Hospitals office was visited, \$110.00 in license fees were found on hand. Of this total, \$80.00 covered Boarding Homes for the Aged Licenses, and \$30.00 was for Convalescent and Nursing Home Licenses. The dates of the checks varied between April 12, 1949 and September 20, 1949, and were received from the district health offices on October 3, 1949.

It is suggested that all checks be entered and deposited when received. If adjustments are later necessary they can be handled through the medium of refunds.

State Cash Book: It is suggested that income from Boarding Home Licenses and Nursing Home Licenses be entered in a separate column in the cash book. At present these license fees are being entered in a column together with Hospital Licenses.

It is also suggested that advances to employees be entered in the cash book. At present no entry is made of either receipts or disbursements. Memoranda entries are, however, made on the outer margin of the cash book.

Sales of Biological Products: Previous audit reports have stated:

"It is noted that the Public Health Council on August 8, 1944 approved the prices at which five additional products may be sold by the Biological Laboratories."

At this same meeting the Council voted as follows:

"That as soon as personnel shortage permit, a thorough cost estimate of biological products be undertaken with the aid of professional analysts as consultants."

In this connection it was noted that cost estimates have now been made and have been approved by the Public Health Council.

Inventories: In this connection the previous audit report stated:

"The department now has on file in the office of fiscal management an individual inventory card for each piece of equipment owned by the department. These inventory cards show considerable detail, including values, and were compiled in the several divisions of the department. It is understood that the department hopes to set up controls over these inventory records."

The situation remained the same on the date of this audit.
The previous audit report stated:

"The biologic laboratory at Jamaica Plain was visited and it was noted that a considerable stock of expendable items was being carried in a store-room and that for each item there was a stock card kept in the office of the laboratory, but there was no record showing the total value of the stock."

It was noted that the total value of the inventory carried at the Biologic Laboratories has been determined, and a schedule prepared by the Department cost accountant listed a total value of stock on hand as of June 30, 1949 as \$30,611.80. The inventory cost of supplies as of June 30, 1949 submitted by the acting director is as follows:

DIVISION OF BIOLOGIC LABORATORIES
Inventory Cost of Supplies as of June 30, 1949

1. Chemicals, Drugs and Media	\$ 3,191 80
2. Filters & Filter Supplies	1,642 46
3. Glassware	14,194 72
4. Rubber Goods, Stoppers and Closures	2,114 30
5. Instruments & Surgical Supplies	1,577 29
6. Hardware & Household Supplies	1,103 97
7. Office Supplies & Printed Material	4,096 03
8. Shipping Containers & Postage	2,470 73
9. Miscellaneous	220 50
	<u>\$30,611 80</u>

It was noted, however, that the control account suggested in the previous audit report has not yet been set up in the general ledger, consequently attention is again called to this matter.

Income - Denatured Alcohol Licenses: In connection with the verification of income from this source, it was noted that license No. 1294 had not been issued, although the fee had been received on January 10, 1949. The license was, however, issued during the progress of the audit.

Hospital Licenses: A license was issued to a hospital in Gloucester, but the check received covering the fee for the license had apparently been lost or misplaced. The hospital was requested to stop payment on the original check and to send to the Division a check in replacement.

Narcotic Drug Licenses: It was noted that license No. 371-W was issued prior to August 11, 1948, the date the fee was received. It is advised that no license be issued until the proper fee has been received.

District Offices: There are eight district offices under the jurisdiction of the Department located in the following communities:

<u>District No.</u>	<u>Area</u>	<u>Community</u>
1	Southeastern	New Bedford
2	South Metropolitan	Quincy
3	North Metropolitan	Commonwealth Avenue, Boston
4	Northeastern	Wakefield
5	South Central	Worcester
6	North Central	Fitchburg
7	Connecticut Valley	Amherst
8	Berkshire	Pittsfield

Each district office, with the exception of Pittsfield, was visited in connection with this examination. License fees covering application for Nursing or Convalescent Homes, or for Boarding Homes for the Aged, were found at each office visited. Cash totaling \$1,470.00, consisting of checks, postal notes, and post office money orders were being held at the seven district offices which were visited awaiting clearance by local boards of health, the Department of Public Safety, local wire inspectors, local zoning authorities, and local fire chiefs. The checks, notes and money orders bore various issue dates since November 4, 1948.

Apparently there appears to be a misunderstanding as to the time when payment shall

be made for the licenses. A list of instructions is included in the form issued by the Director of the Division of Hospitals. A copy of the form issued to the licensees follows:

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC HEALTH
Room 72, 8 Beacon Street, Boston 8

To the Licensee:

Enclosed are certain forms pertaining to the licensing of your home. Please follow these instructions carefully.

1. Fill out application for license in duplicate. Keep one copy. Return the other to the district health officer.
2. Forward the four copies of the board of health certificate of approval to your local board of health. They will keep one copy for their files, return one copy to you which you are to keep, and they will forward two copies to your district health officer.
3. It is necessary for you to request on the enclosed form an inspection of your premises by the Inspector, Division of Inspection, Department of Public Safety who is assigned to your District.
4. In addition, there are forms to mail to your local wire inspector, zoning authority, and fire chief. These reports from the local wire inspector, fire chief and zoning authority should be returned to you.

All these forms properly filled out together with your check or money order for ten dollars payable to the Commonwealth of Massachusetts, must be sent to

M. D., District Health Officer

_____, Mass.

before your application can be considered.

Very truly yours,

Richard P. MacKnight, M.D.
Director
Division of Hospitals

RPM:njc
Enclosures

It would appear, from the foregoing, that the license fee should be sent in when all necessary forms have been properly completed.

Checks, postal notes, post office money orders, which are held for a considerable time before deposit may create confusion and difficulty in clearing them for payment. It is further advised that the Commission on Administration and Finance and the statute regulations do not permit income to be held for longer than a reasonable length of time before deposit.

It is suggested that the Director of Hospitals issue a directive to clarify this matter. It is also suggested that the Comptroller's Bureau be consulted as to the disposition of the various items of this nature now being held in the several District Offices.

Agreement Between the Department of Public Health and the American Red Cross:
In this connection the previous audit report stated:

"It was noted that under an agreement, dated April 30, 1948 the Department has received to the date of audit, a total of \$91,262.00 from the American Red Cross. The agreement provides for the handling and processing of blood by the Department for the American Red Cross for the period from March 1, 1948 to June 30, 1948 - \$32,000.00 to be paid to the Department for the first 8,000 pint bottles of blood and \$3.00 per bottle for excess of 8,000 bottles during the period. Paragraph 4 of said agreement reads:

"The intention of this agreement is that no profit or loss will be incurred by the American Red Cross or the Massachusetts Department of Public Health."

"A letter from the American Red Cross dated July 2, 1948 continued the agreement for the six months periods of July 1, 1948 through December 31, 1948.

"Under the first agreement the Department received \$37,262.00 and under the extended agreement the Department received on July 12, 1948 a check for \$54,000.00 to cover the cost of handling and processing

18,000 pints of blood.

"Referring to the clause in the agreement that no profit or loss will be incurred by either party, it was understood that the Department now has an accountant making cost studies, but to date of the audit the studies have not been completed."

In this connection it was noted that a memorandum and two statements prepared by the Department cost accountant indicate that \$141,262.00 was advanced for whole blood service operations for the period March 1, 1948 to June 30, 1949. Of this amount \$139,253.43 was expended and the balance of \$2,008.57 was applied to the operating costs for the first quarter of the fiscal year beginning July 1, 1949. The copies of this memorandum and the two statements follow:

Cost Accounting of Services Performed by the
Department of Public Health for the American
Red Cross in connection with Whole Blood Program
in Massachusetts covering the Fiscal Year
July 1, 1948 to June 30, 1949

July 29, 1949

Enclosed herewith are two (2) copies each of summaries representing cost accounting for whole blood services during each of two (2) periods. These periods cover July 1, 1948 to December 31, 1948, and January 1, 1949 to June 30, 1949, and represent final charges as respects cost accounting. A summary of all costs, including four (4) months of the preceding fiscal year is tabulated herewith:

March 1, 1948 to June 30, 1948	\$ 33,256.03
July 1, 1948 to December 31, 1948	52,086.90
January 1, 1949 to June 30, 1949	<u>53,910.50</u>
Grand Total - 16 months	\$139,253.43
Total, fiscal year July 1, 1948 to June 30, 1949	\$105,997.40

Inasmuch as \$141,262.00 was advanced for operations of the Whole Blood Program in three (3) checks, one for \$37,262.00, one for \$54,000.00 and one for \$50,000.00, it will be noted that as of June 30, 1949, there was an unexpended remainder of \$2,008.57. This was applied to the operating costs of the first quarter of the fiscal year beginning July 1, 1949.

At the request of the copies for the Red Cross have been furnished directly to him. He and Mr. of the American Red Cross indicated that it would be unnecessary to have these summaries countersigned by the Commissioner. Mr. will divert the two (2) copies that he received into the proper Red Cross channels.

The two (2) copies of each summary enclosed herewith are for your file.
ERS:M
Enc.

AMERICAN RED CROSS WHOLE BLOOD PROGRAM IN MASSACHUSETTS
CHARGES COVERING THE PERIOD FROM JULY 1, 1948 to DECEMBER
31, 1948 INCLUSIVE
(FINAL CHARGES)

1. Salaries	\$28,361.17
2. Laboratory Supplies	1,204.86
3. Miscellaneous Supplies	103.00
4. Depreciation Charges: Based on 1/20 of equipment valued at \$26,303.60	1,315.18
5. Rent	500.92
6. Heating and Processing Steam	1,111.15
7. Electricity	583.24
8. Gas	9.00
9. Water	200.00
10. Telephone and Telegraph	389.12
11. Animal House	177.18
12. Transportation	740.68
13. Equipment Repair and Service	345.17
14. Laundry	196.36

15. Fire Protection	\$ 2.34
16. Express	959.41
17. Corrugated Boxes	332.92
18. Other Shipping Charges	36.17
19. Office Equipment Expense	34.78
20. Repair Needles	646.58
21. Diagnostic Laboratory	<u>8,043.73</u>
22. Total Basic Charges to Whole Blood Program	\$45,292.96
23. Administrative Overhead 15%	<u>6,793.94</u>
24. Total Amount Chargeable to Whole Blood Program	\$52,086.90

I certify that the above costs were determined in accordance with standard accounting procedures and in conformity with established regulations covering fiscal matters of the Commonwealth of Massachusetts.

(signed)..... Cost Accountant
Department of Public Health
Commonwealth of Massachusetts

AMERICAN RED CROSS WHOLE BLOOD PROGRAM IN MASSACHUSETTS
CHARGES COVERING THE PERIOD FROM JANUARY 1, 1949 to JUNE 30,
1949 INCLUSIVE
(FINAL CHARGES)

1. Salaries	\$28,448.59
2. Laboratory Supplies	2,164.00
3. Miscellaneous Supplies	189.62
4. Depreciation Charges: Based on 1/20 of equipment valued at \$26,303.60	1,315.18
5. Rent	500.92
6. Heating and Processing Steam	1,311.90
7. Electricity	693.61
8. Gas	9.00
9. Water	200.00
10. Telephone and Telegraph	445.00
11. Animal House	260.83
12. Transportation	692.99
13. Equipment Repair and Service	352.95
14. Laundry	199.19
15. Fire Protection	2.40
16. Express	1,289.02
17. Corrugated Boxes	302.03
18. Other Shipping Charges	31.15
19. Office Equipment Expense	5.45
20. Repair Needles	703.93
21. Diagnostic Laboratory	<u>7,760.94</u>
22. Total Basic Charges to Whole Blood Program	\$46,878.70
23. Administrative Overhead 15%	<u>7,031.80</u>
24. Total Amount Chargeable to Whole Blood Program	\$53,910.50

I certify that the above costs were determined in accordance with standard accounting procedures and in conformity with established regulations covering fiscal matters of the Commonwealth of Massachusetts.

(signed)..... Cost Accountant
Department of Public Health
Commonwealth of Massachusetts

It was further noted that a total of \$75,000.00 was advanced for the Red Cross Fractional Pilot Project for the period July 1, 1948 to June 30, 1949. Of this total \$73,837.26 was expended and the unexpended balance of \$1,162.74 was applied to the operating costs of the first quarter of the fiscal year beginning July 1, 1949. Copies of the

memorandum and the two statements in this matter follow:

Cost Accounting for Red Cross Pilot Project

July 29, 1949

Enclosed herewith are two (2) copies each of summaries representing cost accounting for the American Red Cross Pilot Project during each of two (2) periods. These periods cover January 1, 1949 to March 31, 1949, and April 1, 1949 to June 30, 1949 inclusive and represent the final charges as respects cost accounting.

A summary of the costs for each of the four (4) quarters is tabulated herewith:

July 1, 1948 - September 30, 1948	\$12,432.14
October 1, 1948 - December 31, 1948	14,168.53
January 1, 1949 - March 31, 1949	23,579.12
April 1, 1949 - June 30, 1949	23,657.47
Grand Total	<u>\$73,837.26</u>

Inasmuch as \$75,000.00 was advanced for operations of the Pilot Project, in two (2) checks, one for \$50,000.00 and one for \$25,000.00, it will be noted that as of June 30, 1949, there was an unexpended remainder of \$1,162.74. This was applied to the operating costs of the first quarter of the fiscal year beginning July 1, 1949.

At the request of Mr., the copies for the Red Cross have been furnished directly to him. He and Mr., of the American Red Cross indicated that it would be unnecessary to have these summaries countersigned by the Commissioner. Mr. will divert the two (2) copies that he received into the proper Red Cross channels.

The two (2) copies of each summary enclosed herewith are for your file.

ERS:M

Enc.

AMERICAN RED CROSS BLOOD FRACTIONATION PILOT PROJECT CHARGES
COVERING THE PERIOD JANUARY 1, 1949 to MARCH 31, 1949 INCLUSIVE
(FINAL CHARGES)

1. Salaries	\$ 9,617.70
2. Supplies, Laboratory	5,295.26
3. Supplies, Miscellaneous	45.83
4. Reagent Alcohol	207.36
5. Nitrogen	21.54
6. Dry Ice	308.78
7. Depreciation Charge Pilot Project Equipment (1/40th total) Basis 10% per annum on equipment valued at \$77,153.39	1,928.84
8. Rent, prorated on basis of occupancy	533.54
9. Heating and Processing Steam	255.39
10. Electricity	773.52
11. Gas	10.50
12. Water	50.00
13. Telephone and Telegraph	30.00
14. Animal House, Rabbit account	400.11
15. Transportation	51.00
16. Equipment Repairs and Service	738.60
17. Laundry	93.11
18. Fire Protection	2.40
19. Technical Journals	17.06
20. Office Equipment Expense	2.84
21. Overtime Lunch Money	74.00
22. Essotane	46.20
23. Total Basic Charges, Pilot Project	<u>\$20,503.58</u>
24. Administrative Overhead 15%	<u>3,075.54</u>
25. Total Amount Chargeable to A.R.C. Pilot Project	<u>\$23,579.12</u>

I certify that the above costs were determined in accordance with standard accounting procedures and in conformity with established regulations covering fiscal matters of the Commonwealth of Massachusetts.

(signed).....Cost Accountant
Department of Public Health
Commonwealth of Massachusetts

AMERICAN RED CROSS BLOOD FRACTIONATION PILOT PROJECT
CHARGES COVERING THE PERIOD APRIL 1, 1949 to JUNE 30, 1949
INCLUSIVE
(FINAL CHARGES)

1. Salaries	\$10,901.17
2. Supplies, Laboratory	3,770.41
3. Supplies, Miscellaneous	133.68
4. Reagent Alcohol	348.49
5. Nitrogen	41.07
6. Dry Ice	724.41
7. Depreciation Charge Pilot Project Equipment (1/40th total) Basis 10% per annum on equipment valued at \$76,524.96	1,928.84
8. Rent, prorated on basis of occupancy	533.54
9. Heating and Processing Steam	131.06
10. Electricity	844.87
11. Gas	10.50
12. Water	50.00
13. Telephone and Telegraph	32.61
14. Animal House, Rabbit Account	382.37
15. Transportation	245.70
16. Equipment Repairs and Service	306.49
17. Laundry	106.08
18. Technical Journals	38.24
19. Office Equipment Expense	8.69
20. Overtime Lunch Money	33.50
21. Total Basic Charges, Pilot Project	\$20,571.72
22. Administrative Overhead 15%	3,085.75
23. Total Amount Chargeable to A. R. C. Pilot Project	\$23,657.47

I certify that the above costs were determined in accordance with standard accounting procedures and in conformity with established regulations covering fiscal matters of the Commonwealth of Massachusetts.

(signed).....Cost Accountant
Department of Public Health
Commonwealth of Massachusetts

It would appear from the following letter that the agreement between the Massachusetts Department of Public Health and the American National Red Cross covering the period of July 1, 1948 through June 30, 1949 would be continued for an additional period of one year ending June 30, 1950:

October 3, 1949

My dear Doctor Getting:

I find that, although there is an informal mutual understanding with regard to the extension of the pilot plant agreement for another year, beginning July 1, 1949, this extension has not been formally executed.

Therefore, in accordance with paragraph 6 of the memorandum of agreement between the Massachusetts Department of Public Health and the American National Red Cross whereunder during the period July 1, 1948 to June 30, 1949, the former made available personnel, laboratory and storage facilities to be used in research and pilot plant development work for the National Blood Program, this will evidence the agreement of the American National Red Cross to a continuance of the terms of that agreement, except as hereafter in-

licated, for an additional period of one year, ending on June 30, 1950, provided that either party may terminate the agreement upon giving at least ninety days' written notice of intention to terminate.

It is understood that under this extension of the existing agreement, payment to the State of Massachusetts by the American National Red Cross will be on a quarterly reimbursement basis rather than a cash advance basis.

If the foregoing meets with your approval, please sign the attached carbon and return it to this office.

Sincerely yours,
James T. Nicholson
Executive Vice President

Dr. Vlado A. Getting, Commissioner
Department of Public Health
The Commonwealth of Massachusetts
State House
Boston, Massachusetts

Approved: Vlado A. Getting (Signed)

Special Appropriations: The records of the Department indicate a balance of \$11,205,637.61 in the special appropriations account as of September 30, 1949. Of this total, \$11,180.00 represents plans for, and construction of the Forest Hills Chronic Disease Hospital.

It was noted that an item of \$20,000.00 appears on the Department records as having been paid. However, it is understood that this payment is still being held up in the Comptroller's Bureau. It represents an invoice plan drawn up for a Chronic Disease Hospital in Stoneham. The proposed location, however, of the Hospital has been changed to Forest Hills.

LAKEVILLE STATE SANATORIUM

REPORT No. 2629

Board Rate for Crippled Children: Effective May 1, 1949 the Department of Public Health has established a sliding scale for board of crippled children. This new rate is from \$14.00 to \$35.00 per week for crippled children, under 21 years of age, according to ability to pay. It is understood that in cases of families who could not pay the established minimum rate of \$14.00 per week that the cost of treatment would be assumed by the Department.

Although this new policy is based entirely on the ability to pay, the institution has not been instructed as to the proper procedure to be followed in determining the amount to be charged.

Farm Losses: The farm has reported a loss of \$13,909.40 for the year 1948. This is attributed to the high cost of grain and other supplies, the excessively low prices for farm products, and operating at approximately 50% capacity.

NORTH READING STATE SANATORIUM

REPORT NO. 2650

Suspense Accounts Receivable: It was noted that the accounts submitted to the Attorney General were not transferred to a general ledger Suspense Accounts Receivable from the regular active Accounts Receivable. This is contrary to instructions within the Comptroller's Bureau Accounting Manual.

Old Checks: It was noted that there were six checks which have been outstanding for over a year. It is recommended that payment be stopped on them and the proceeds transferred to the State Treasurer.

Inventories of Stock Ledger: The Comptroller's Bureau Accounting Manual states:

"Inventories of Stock Ledger items are to be taken so as to have a complete inventory of all the Active Accounts AT LEAST FOUR TIMES during the year. The Inactive Accounts should be inventoried AT LEAST THREE TIMES during the year."

It was learned that this directive has not been followed. This has resulted in many variances between the actual physical inventory and the stock ledgers. It is suggested that as a step toward effecting the reconciliations, efforts should be immediately made to arrange periodic inventories together with necessary resultant adjustments in accord-

ance with the aforementioned instructions.

Farm Audit - 1948: It was noted that the monthly animal census reports included several erroneous entries. These differences created an understatement of \$102.00 in the closing inventory as reported on that farm report.

The variances were called to the attention of those concerned and were then corrected. It is suggested that greater care be taken in the preparation of these reports. It is furthermore suggested that the steward's office check all such reports.

Canteen: A canteen is in operation on the grounds of the institution. This canteen is operated by a concessionaire with no financial return to the institution and was established in January 1948. The Department of Public Health gave its sanction to this arrangement with the stipulation that in the event the space used is needed for institution purposes the concession will be terminated. The books and records of the concession are maintained entirely by the concessionaire, the institution keeps no records of this activity. The items sold at the canteen are candy, tobacco, food, some articles of clothing, etc.

Margaret N. MacNevin Fund: This fund totaling \$1,000.00 was established in July 1944 and has earned no interest. The State Treasurer's office reports that this money has never been invested and that they have never been advised to invest the money. The fund has no restriction as to expenditures and it was granted for the use of the institution, as it saw fit. It is, therefore, recommended that steps be taken to invest this fund money so that interest may be earned.

RUTLAND STATE SANATORIUM

REPORT No. 2658

Farm: In connection with the audit of the farm accounts the following was noted. Farm products to storeroom per sheet "M" of the farm report for the 1948 farm year does not reconcile with the farm records for that period.

Monthly trial balances of the farm ledger were not taken by the institution's employees.

Requisitions for withdrawal of grain are not made out at time of withdrawal and sent to the Steward's office to be recorded in the stock ledger. The requisitions do not show approval.

Monthly reports of farm products in pounds (Farm CB Farm F-2M) have not been made out.

WESTFIELD STATE SANATORIUM

REPORT No. 2718

Materials and Supplies: A test inventory of the Materials and Supplies showed aggregate shortages of \$389.23 and overages of \$530.81.

Farm: The annual farm report for the 1949 farm year was examined and showed an operating loss of \$16,994.48.

The June 30, 1949 financial report showed an excess of \$25,173.57 of cash expended for farm operations as compared with the values of farm sales and products sent to the institution for consumption.

A comparison of the 1948 and 1949 fiscal years is now shown:

Appropriation Expenditures:		
Personal Services	\$14,218.45	\$21,097.21
Expenses	<u>22,292.88</u>	<u>22,716.50</u>
	\$36,511.33	\$43,813.71
Farm Products to Storeroom and Farm Sales	<u>(20,353.19)</u>	<u>(18,640.14)</u>
Excess of Appropriation Expenditures over value of Farm Production and Sales	<u>\$16,158.14</u>	<u>\$25,173.57</u>

Trust Fund: It is again suggested that the Comptroller's Bureau issue instructions to the institution to separate this fund from the Canteen Fund. It is also suggested that this fund be set up in the general ledger as an independent fund.

DEPARTMENT OF PUBLIC SAFETY

REPORT No. 2660

Framingham Stores: The previous audit report stated:

"Attention was called in the two previous audit reports to an amount of \$144.30 due the department since 1941 for 39 cases of paper napkins returned to the vendor as unsatisfactory. This then was turned over to the Purchasing Bureau on July 17, 1941 for collection. To date, this amount has not been collected, but an attempt was made to apply this credit to a current purchase from the same concern, without success.

"It is recommended that this account be turned over to the Attorney General for disposition.

"It was understood that this matter has been discussed with an Assistant Attorney General and that it will be formally given to the Attorney General in the near future."

There has been no change in this situation during the current audit period.

Materials and Supplies Account: The previous audit report stated:

"The materials and supplies account in the general ledger is being charged each month with the excess of purchases over issues, and credited with the excess of issues over purchases. All adjustments, when greater or less than the actual physical inventory are used to reduce or increase the issues for the period. This is not in accordance with the accounting procedure as set forth in the manual published by the Comptroller's Bureau.

"It is suggested that the accounting as set forth in the manual be adhered to."

It was noted that this arrangement was corrected as of July 1, 1949.

Standard Booth Licenses: The custom of issuing duplicate licenses from regularly numbered original licenses should be discouraged. A special license plainly marked "duplicate" should be used for this purpose with information showing the number of the original license for which the duplicate is issued.

It was noted that two standard booth licenses have been issued without the holder being billed for them. This was due to the fact that the cards which should pass through the cashier's office before filing were sent direct to the filing room. Bills will be sent these license holders. The licenses concerned are #249 issued at Springfield and #29 issued at Fall River.

Collection of Boiler and Air Tank Inspection Fees: This department has long extended credit in the matter of boiler and air tank fees. This practice has resulted in many charge offs of fees for inspection of insured boilers, and each month there remains a large outstanding list of accounts receivable. A large amount of work is necessary in billing and follow up statements. On December 9, 1949 there were outstanding accounts to the amount of \$5,825.00, some of which must eventually be turned over to the Attorney General for collection.

This matter was discussed with the Commissioner to whom the suggestion was made that future inspections be made upon the written application of the owner accompanied by the required fee. This system will eliminate all billings, assure the State 100% income and prevent the inspection of insured boilers. It will also eliminate the difficulty encountered in determining the real owner of a property. Inspectors have in the past been obliged to spend time at the Registry of Deeds to find out the owner of certain property.

This suggestion met with the approval of the commissioner and he gave instructions to prepare the necessary forms subject to the approval by the Attorney General.

DEPARTMENT OF PUBLIC UTILITIES

REPORT NO. 2693

Boston Elevated - Declaratory Judgment: It was noted that the following accounts still appeared as open on the general books of this department:

Special Appropriation Boston Elevated	
Declaratory Judgment	\$2,583 79
Special Appropriation Boston Elevated	
Declaratory Judgment Allotment Account	<u>7,304 26</u>
	<u>\$9,888 05</u>

In this connection it was noted that the accounts affecting this appropriation did not

appear on the financial report of June 30, 1949.

This appropriation was reverted on June 30, 1949 by the Comptroller's Bureau and not by the department. It is recommended that the Comptroller's Bureau forward to the department the necessary closing entries to close these accounts on the department's books.

Financial Reports: It was noted that the Funds Transferred to State Treasurer account in the general ledger did not agree with the corresponding amount in the Income Statement. The differences were caused by not properly entering returned checks and refunds account of Income in both records. It is recommended that the Funds Transferred to State Treasurer account be reconciled monthly with the corresponding figures in the Income Statement in the monthly financial reports.

Current Year Refunds: It was noted that in one instance Current Year Refunds were posted to the Funds Transferred to State Treasurer Account. This is not in conformity with the Comptroller's Bureau Accounting Manual and should be adjusted.

DEPARTMENT OF PUBLIC WELFARE

General Department

REPORT No. 2691

Old Age Assistance - State Share: For the 1950 fiscal year an appropriation of \$27,000,000.00 was granted for this purpose. To March 2, 1950 \$25,372,362.41 was expended, leaving an unexpended balance in the appropriation account of \$1,627,637.59. At this time the records in the department indicate that bills which were submitted totaling \$7,179,804.57 have been audited and approved for payment. These were not paid because no funds are available. It appears that the total of bills submitted and approved but not paid will be increased by June 30, 1950 to approximately \$19,000,000.00. At present it is not the practice to record such liabilities in the general ledger of the department. It is suggested that the State Comptroller be requested to provide for the recording in the general ledger of audited and approved liabilities so that the true financial status may be readily apparent.

Appropriation for Reimbursement to Cities and Towns for Temporary Aid: It was noted that on February 28, 1950 there was an unexpended balance in the allotment account of \$12,217.25. The records in the department show that bills have been submitted for payment in the amount of \$166,000.00, of which \$56,000.00 were audited and approved but not paid.

Aid to Dependent Children: It was also noted on February 28, 1950 that there was an unexpended balance in this allotment account of \$81,536.48, while the records of the department show bills submitted, audited and approved but not paid in the amount of \$449,123.96. Out of the unexpended balance in the allotment account \$5,000.00 will have to be paid, which represents the State Share of Administration Cost under provision of Chapter 117, Sections 44, 45 and 46. The items of \$449,123.96 represents 1949 fiscal year liabilities.

Care and Maintenance: It was noted that on February 28, 1950, there was an unexpended balance in the allotment account of this appropriation of \$1,014,006.57. During the 1950 fiscal year bills submitted, audited and approved but not paid in the amount of \$17,896.53 representing 1949 fiscal year liabilities. No deficiency appropriation was apparently made during the 1950 fiscal year to pay these liabilities. It is understood that when the 1951 fiscal year budgets are prepared, a deficiency appropriation will also be requested to pay for the 1949 liabilities.

Burial of Indigent Persons: It was noted that on February 28, 1950 there was an unexpended balance in the allotment account of \$2,827.45, while the records in the department indicate that bills submitted for payment in the amount of \$8,000.00 still remain unpaid.

Contagious Diseases: It was noted that on February 28, 1950 there was an unexpended balance in this allotment account of \$72,689.48, whereas the records in the department show bills submitted for payment in the amount of approximately \$82,000.00, of which \$78,000.00 were for audited and approved items but which were not paid.

Support of Indigent Persons: It was noted that on February 28, 1950 there was an

unexpended balance in this allotment account of \$171,830.63. It is understood that this balance will be used to pay 1949 fiscal year liabilities, which presently cannot be accurately estimated because of lack of necessary settlement information.

Tuition and Transportation of Children: It was noted that on February 28, 1950 there was an unexpended balance in the allotment account of \$7.16. The records in the department show bills submitted, audited and approved but not paid were in the aggregate amount of \$65,103.35.

Infant Boarding Home Licenses: It was noted in several instances that license applicants had sent in money with their applications in excess of the correct fees. In such cases the correct fees were recorded in the cash book and the excess was refunded directly to the license applicants. It is suggested in the future that the entire amount be recorded as received, and a refund of receipt voucher be issued for the excess to be cleared in the proper manner.

Division of Child Guardianship - Refunds of Receipt Vouchers: In checking the refunds of receipts on individual cases, it was noted that a refund of \$62.10 was made to a grandparent of a child in December 1948. This item was duplicated in April 1949 by making a refund to the United States Government in the same amount. It is understood that an effort has been made to have the Federal Authorities refund this amount.

Division of Child Guardianship - Reimbursements for Support of Children by Individuals: In addition to the reimbursements by cities and towns for support of certain children, the Department is reimbursed by individuals on court order and occasionally on their own initiative.

In the case of children committed to the care of the division by court order, the court may order a parent to pay a designated amount for the support of the child. These payments are made by the parent directly to the probation officer of the court which has jurisdiction, who in turn remits the collection to the Division of Child Guardianship in the Department of Public Welfare. A test check was made of one district where approximately 310 commitments to the care of the Department have been made during the current audit period and it was noted that in only 15% of these cases had payments been made. It is suggested that a separate card be kept for each case and that some regular followup method be provided so that these collections may be currently controlled.

Accounts Due from Municipalities a/c Child Guardianship and State Infirmary Cases: It is suggested that all accounts over one year old be referred to the Attorney General for collection or disposition.

Accounts with Attorney General for Collection: It was noted that on March 2, 1950 the total of the outstanding accounts receivable was \$239,958.56 of which accounts totaling \$31,554.62 were supposedly with the Attorney General for collection. It was noted upon checking with the records in the Attorney General's department that items totaling \$7,953.15 had apparently never been received by the Attorney General. It is suggested that steps be taken to bring the department's records in this respect into agreement with those maintained by the Department of the Attorney General.

Accounts Charged Off by Attorney General: During the period under examination, Division of Aid and Relief accounts aggregating \$6,476.87 were charged off the records by authority of the Attorney General.

Suspense Accounts Receivable Account: It is recommended that a Suspense Accounts Receivable Account be set up in the general ledger. The balance of this account should represent the accounts in the hands of the Attorney General for collection in accordance with the instructions in the Accounting Manual issued by the State Comptroller's Bureau.

Division of Aid and Relief - Accounts Receivable: In this connection the previous audit report stated:

"Charges to cities and towns for board of inmates at the State Infirmary originate in the Settlement Division, where so-called billing cards are kept. Quarterly the cards are totaled on an adding machine and the cards, together with a memo showing the total of the billings, are sent to the Bureau of Accounts. There the cards are totaled on an adding machine, following which the bills are made out and the billing

cards returned to the Settlement Division. It is suggested that any differences between the Settlement Division totals and the Bureau of Accounts totals be shown on a reconciliation sheet which should be kept for audit purposes. Adding machine tapes should also be retained.

"Payments for support are sometimes received by members of the Settlement Section personnel and also by the Assistant Director of the Division. The monies so collected are turned over to the Bureau of Accounts. Standard receipt books should be used by all employees when monies are collected on behalf of the Commonwealth."

As this matter has not been corrected attention is again called to it.

Board of Private Patients at Tewksbury State Hospital: Referring to this, the previous two audit reports have stated:

"Referring to board of private patients, it is understood that the social service section of the department makes this determination and apparently the only records of such cases in that section are in the particular case history folders. It is suggested that the social service section keep a segregated record of private cases authorized which will provide a basis for auditing this type of income."

Attention is again called to this suggestion, as the arrangements have not been changed.

Ledger Accounts with Municipalities Account of Division of Aid and Relief: Previous audit reports have stated:

"It is again recommended that each ledger account with a municipality be backed up by a ledger account with each person included in the make-up of the account - at present there are ledger accounts with the municipalities but the detail is shown only on duplicate bills."

As this recommendation has not been adopted, attention is again called to it.

Division of Aid and Relief - Income Transferred to Institutions: In this connection the previous audit report stated:

"It is suggested that all income received by the Division for credit to the State Farm and to the Infirmary at Tewksbury be transferred directly to the State Treasurer, and a copy of the receipts voucher only be sent to the institutions concerned. At present, income of this kind is transferred directly to the institutions and is later transferred by the institutions to the State Treasurer."

As this suggestion has not been followed, attention is again called to it.

Division of Child Guardianship - Ward Wages Monthly Reports: At the time of the audit it was noted that monthly ward wage reports were filed at the various district offices. It is suggested that the original copy of the report be held in the main office, at least until they have been audited. It was also noted that many reports had no vouchers attached to substantiate purchases made for the ward. It is suggested that visitors instruct the employers to attach vouchers for expenditures made to each monthly report. It is further recommended that all monthly wage reports be signed by the supervising visitor.

Division of Aid and Relief Trustee Accounts: Previous audit reports have stated:

"These funds are received in the first instance in the office of the Assistant Director of the Division, are placed in an envelope and sent daily to the bookkeeping office, where a receipt in duplicate is made out for each item and the funds deposited in individual savings bank accounts. The duplicate copy of the receipt is retained in the bookkeeping office and the original copy of the receipt is sent to the office of the Assistant Director of the Division who sends them to the social service section, where some have been filed in case history folders

and some have been placed in an envelope.

"Apparently the receipt forms merely serve as inter-office memos and it is suggested that this matter be brought to the attention of the State Comptroller to the end that the receipt forms may be used for the purpose intended."

As this suggestion has not been followed, attention is again called to it.

Division of Child Guardianship - Funds of Wards, Whereabouts Unknown: Unclaimed funds of State wards who cannot be located should be transferred to the State Treasurer in accordance with Chapter 618 of the Acts of 1941. During the period of audit accounts totalling \$202.99 were transferred and 13 accounts totalling \$395.31 were in this category awaiting transfer on March 2, 1950.

Division of Child Guardianship - Storeroom: The storage facilities as mentioned in previous audit reports have not improved, and it is again suggested that adequate storeroom facilities should be provided.

Storeroom Issues to Temporary Homes: It was noted that of the total issues of \$51,735.46 for the audit period, items amounting to \$22,092.96 were issued to so-called "Temporary" homes for children. It was noted that the "Temporary" homes are not required to file reports showing the disposition of the clothing, etc., received. It is suggested that if practical, a monthly report be submitted.

Storeroom Inventory: A test inventory of 270 items was taken on March 2, 1950. A net overage of \$2.16 existed between the book balances and the physical inventory. However, 71% of the items counted did not agree with the stock ledger balances.

MASSACHUSETTS HOSPITAL SCHOOL

REPORT No. 2676

Minutes of Trustees' Meetings: The previous audit report stated:

"Minutes of Trustees' Meetings: The minutes of the trustees' meetings were reviewed for the period under examination. In this connection it was noted that they consist of loose sheets of paper and are not signed nor are they incorporated in the regular bound record book of these proceedings which is available. It is suggested that this record be properly kept."

As this situation still exists, it is again suggested that these records be properly maintained.

Income: It was noted that there are several delinquent accounts carried in the active accounts receivable ledger.

It is suggested that these accounts be turned over to the Attorney General for disposition.

Bonds: Although the treasurer of this institution is covered by bond for State funds it is suggested that the treasurer be also bonded from the Endowment Fund.

TEWKSBURY STATE HOSPITAL AND INFIRMARY

REPORT No. 2671

Pay Roll Bank Account: On the date of the current audit it was noted that the pay roll bank account had not been reconciled since March 1949, so it was impossible to make a reconciliation as of that date. Difficulty has been experienced for the past few audits in this respect, and it is urged that immediate steps be taken to rectify this condition as it is very important that this reconciliation should always be currently maintained.

Meal Tickets: In checking the potential income from the sales of meal tickets a difference of \$28.70 was noted as follows:

Potential Income - Per Inventory		\$13,382 90
Income Recorded on Cash Records	\$13,212 90	
Cash Found in Office Safe, not Recorded because Sequence of Tickets could not be Determined by Institution Treasurer	141 30	13,354 20

Difference

\$28 70

The wisdom of holding in the office safe the aforementioned \$141.30 simply because the identity of the tickets sold could not be established is seriously questioned. All monies of this nature should always be immediately processed for deposit. Adjustments, if necessary, can be made at a later date. As a matter of fact this money was deposited on January 5, 1950, while the audit was in progress.

Bonding of Employees: It was noted that certain employees in the treasurer's office who handle cash are not bonded. Conditions in this office often require these non-bonded employees to handle large amounts of money originating from the sales of meal tickets and patients' cash.

It is, therefore, recommended that all those whose duties involve handling cash be bonded.

Free Meal Tickets: It was noted that the meal ticket arrangement was instituted under authority of Administrative Bulletin No. 105, Commission on Administration and Finance dated September 28, 1949.

This bulletin authorizes that meal tickets be issued to the following without charge: Affiliate Student Nurses, Social Service Students, Medical Student Internes and other students or volunteer workers who receive no compensation from the Commonwealth.

During the audit period it was noted that there were 83 meal tickets issued without charge. It was further noted that there were no adequate records to show to whom such meal tickets were issued. Those receiving these tickets did not sign for them nor was it indicated why they were so issued. It is noted that this bulletin of the Commission on Administration and Finance made no provision for keeping any record of transactions of this nature.

It is, therefore, recommended that competent records be maintained for the accounting of these gratuitous meal tickets.

Sales Slips: It was noted that certain sales recorded in the general ledger by journal entries were not substantiated by sales slips. It was further noted that several sales slips which recorded part payments of income were treated as charges to accounts receivable general ledger account in two instances.

It is, therefore, recommended that the sales slip numbers be recorded in the cash book so that items of income can be readily identified.

Instances were also noted of adjustments of sales being recorded on only one of three copies of the sales slips causing variances between the copies.

Unpaid Accounts Receivable: Items of income unpaid since 1948 and prior years amounting to \$571.70 should be referred to the Attorney General for disposition. A suspense accounts receivable should also be set up in accordance with the Comptroller's Bureau Accounting Manual.

Accounts Receivable Ledger: As of the date of audit the accounts receivable subsidiary ledger was posted only to June 30, 1949. It was brought up to date while the current audit was in progress.

Maintenance of Employees: It was noted that charges for maintenance of employees had not been recorded since June 30, 1949. It was understood that this was due to the fact that the pay rolls had not been currently reconciled. These charges are ordinarily deducted from the pay roll account and remitted to the State Treasurer as income.

In effect, the institution has in the Pay Roll Bank Account income which should have been forwarded to the State Treasurer, the amount of which cannot be accurately determined at this time. It is recommended that maintenance charges be promptly and properly computed and the income sent to the State Treasurer.

Financial Reports: No monthly financial report has been prepared or submitted to the Comptroller's Bureau since June 30, 1949. During the course of the audit the Comptroller's Bureau submitted general ledger closing entries as of June 30, 1949. It is suggested that every effort should be made so that the necessary financial reports can be submitted currently.

General Ledger: It was noted that the general ledger was posted only to August 31, 1949. This made the taking of a trial balance of that ledger as of date of audit impractical. According to institution authorities this was accounted for by the fact that certain

necessary information had not been submitted to the institution treasurer by the institution steward's office.

Materials and Supplies: The test inventory taken on December 12, 1949 in connection with the current audit could not be entirely verified. This situation was occasioned by the fact that certain stock ledgers had not been posted beyond August 31, 1949 because of the illness of one of the employees in the steward's office.

Materials and Supplies - Adjustments: An examination of the adjustment book showed that certain adjustments were made in amounts over \$100.00 without necessary approval. The instructions issued by the Comptroller's Bureau Accounting Manual requires that "An adjustment of a single item amounting to \$100.00 or more must be approved by both the Superintendent and the Department." It is recommended that this regulation be complied with.

Patients' Funds: On the date of the audit it was noted that there was a total of \$63.75 in overdrafts representing 59 items of which 51 are inactive accounts and 8 are active accounts. It was further noted that there was \$438.85 representing accumulated interest in the patients' fund cash account which could not apparently be disposed of. The matter of these overdrafts and the accumulated interest has been the subject of much comment in previous audit reports.

The Attorney General advised that the General Court be requested to give authority in the disposition of these items. On November 8, 1946 a letter was sent to the Budget Commissioner requesting a sum sufficient in the annual budget to allow these overdrafts to be cleared. In this connection it is interesting to note that no funds have yet been made available by the General Court.

There also seems to be no apparent reason for the \$438.85 of accumulated interest being allowed to remain in the institution. It would seem that some disposition should be made of this money and it is suggested that a determination in this respect be made.

Included in the list of patients' bankbooks are 4 belonging to patients deceased in excess of 7 years. These books should be disposed of in accordance with the statutes.

In the previous audit report it was noted that many patients' cards listed as active were actually in the inactive category. It is again recommended that the patients' cards be kept current by a continuous reference to the files maintained in the record office.

It was also noted that the institution does not take a trial balance of the patients' cards each month. Because of this a great deal of difficulty was experienced in taking a trial balance of the patients' cards in connection with this audit. The difficulties experienced were in the main due to errors in posting in previous months. These errors would have been reduced if a trial balance were taken monthly. It is, therefore, recommended that a trial balance of the patients' cards be taken monthly.

Unpaid Checks in the Various Funds: In the State account there were noted twelve outstanding checks over a year old. These should be handled as prescribed by the Comptroller's Bureau. In the Community Store Fund there were nine outstanding checks over a year old. Of these nine checks eight were issued to the Postmaster at Tewksbury during the years 1945, 1946 and 1947 totaling \$154.24. The Postmaster has repeatedly been asked to put the checks through for payment but has failed to do so. In the Patients' Fund there were found eight outstanding checks over a year old. The matter of outstanding checks held in excess of one year has been the subject of comment in previous audit reports and it is, therefore, again recommended that steps be taken to clear up these situations.

Community Store: During the taking of the physical inventory, it was found that many items kept in stock are either obsolete or unsalable at the sales prices indicated. Some of these items have been in the store for many years and consist of the following: nurses uniforms, collars, cuffs and aprons, war greeting cards, side-combs, stockings, V-mail, soap, certain types of razor blades, and old fountain pens. All of these items should be marked down for quick disposal or sold to some other agency where they may have some use.

The inventory taken in connection with the current examination indicated an average approximating one and one-half per cent of sales. This was accounted for to a large extent by the sales of syrups, soda water, milk, and book matches which are included in the inventory control figure as a part of the accountable merchandise for sale but are actually operating expenses.

At the date of audit there was over \$11,000.00 in banks representing accumulated funds of the Community Store. This fund is constantly growing since it is apparently not

needed for current operations. Since the canteen was established primarily for the patients' benefit, some use should be made of these funds instead of allowing them to accumulate. The only apparent use made of the store surplus in the way of patients' benefits is in the purchasing of newspapers and magazines for the patients and totalled only \$643.18 during the audit period. The profits for the same period amounted to \$2,636.65.

During the course of the audit several visits were made to the Community Store, and on several of these visits it was observed that there was currency lying on the counter. All sales money should be recorded in the cash register immediately at the consummation of the sale and not at a later time.

Comment was made in the previous audit report with reference to an accumulation of cash in excess of the total amount as recorded on the daily cash register tapes. This overage now totals \$174.31. The suggestion that this overage be recorded as miscellaneous income is, therefore, repeated.

DEPARTMENT OF PUBLIC WORKS

General Department

REPORT No. 2724

Financial Records in General: Two separate sets of financial records (including the cash) are kept; one for the Division of Highways and the other for the Waterways Division.

Highways Division

Robbery in Traffic Shop: A prior audit report commented on a cash shortage of \$86.62 in the advance money of the Traffic Shop located at 1890 Columbus Avenue, Boston. This shortage was due to a robbery which was committed either during the night of March 1, 1948, or in the early morning of March 2, 1948.

Under the provisions of Chapter 307, Acts of 1949 reimbursement for this loss was specifically included in the appropriation of \$6,000,000.00 under item 2900-02, for the 1950 fiscal year. On July 8, 1949 petty cash check #15205 in the amount of \$86.62 was drawn in favor of the Massachusetts Department of Public Works. It was then entered as a receipt under date of June 30, 1949, thus wiping out the shortage as of the close of the 1949 fiscal year.

Highways - Accounting System: Previous audit reports have treated in detail the installation of this system by the Public Administration Service of Chicago, Illinois in 1941-1943.

It was understood that about September 1, 1946, the Comptroller's Bureau completed a detailed survey of the bookkeeping system installed by the Public Administration Service.

No detailed review was made of the system during this audit by this Department. It was understood that a review of the system is being made by a consultant who was engaged by the Commissioner of Public Works, but to date of this audit, the consultant had not filed his report with the department.

Inventories: An integral part of the installation by the Public Administration Service was a tabulating Inventory Control. Inventories are maintained in 42 storehouses located throughout the State and the system is so designed as to provide a control in the machine room for the materials and supplies in each of the 42 storehouses. Test inventories were taken at four of the storehouses and the results of the inventory takings are summarized as follows:

Summary of Test Inventories

	Storeroom #45 Lexington	Storeroom #35 Millbury	Storeroom #2 Traffic Shop	Storeroom #1 D. St.
Value Per Book Records	<u>\$14,149 46</u>	<u>\$12,990 98</u>	<u>\$122,397 35</u>	<u>\$31,030 83</u>
Value Per Physical Inventory	\$14,365 67	\$13,450 58	\$120,352 35	\$27,169 37
Add - Shortages	45 81	246 80	14,106 23	5,984 40
	<u>\$14,411 48</u>	<u>\$13,697 38</u>	<u>\$134,458 58</u>	<u>\$33,153 77</u>
Less - Overages	262 02	706 40	12,061 23	2,122 94
Value Per Book Records	<u>\$14,149 46</u>	<u>\$12,990 98</u>	<u>\$122,397 35</u>	<u>\$31,030 83</u>

Total Book Value of All Items In Store- room	<u>\$36,209 91</u>	<u>\$33,043 51</u>	<u>\$285,454 00</u>	<u>\$260,253 21</u>
Date of Inventory	May 25, 1950	June 6, 1950	May 29, 1950	June 2, 1950
Date Book Records Received	June 7, 1950	June 20, 1950	June 21, 1950	June 22, 1950
Total Number of Items in Store- room	<u>611</u>	<u>488</u>	<u>1064</u>	<u>4328</u>
Number of Items Inventoried	<u>226</u>	<u>135</u>	<u>206</u>	<u>408</u>
Number of Items Short	<u>20</u>	<u>15</u>	<u>60</u>	<u>167</u>
Number of Items Over	<u>49</u>	<u>22</u>	<u>64</u>	<u>77</u>

In considering the results of these inventories it should be noted that it was understood that no adjustments had been made since June 20, 1949. It should also be noted that the storage facilities in many of the storehouses is inadequate.

Recently the department has assigned to the chief storekeeper the duties of supervising the inventories and the taking of test inventories from time to time. This is certainly a step in the right direction.

Previous audit reports have commented on the fact that no control account is carried in the general ledger for materials and supplies. It is suggested in view of the fact that the book records in the machinery room are so designed as to provide a separate control for the materials and supplies in each of the 42 storehouses, that as of July 1, 1950, separate control accounts be set up in the general ledger for three or four of the storehouses and gradually increase the number of control accounts until all 42 have been provided.

Contracts - Low Bid Rejected: Four contracts were awarded to other than the low bidder. A bid of \$7,010.40 by one bidder was rejected because of a variance in the point of delivery of steel. The specifications required delivery at sites of construction. The bidder had specified delivery F.O.B. cars destination. Contract was awarded to the second lowest bidder for \$7,212.80.

Another bid of \$23,295.60 by the same Company was rejected for the same reason as above. Contract was awarded to the second lowest bidder for \$25,110.00.

A bid by another company of \$9,354.23 was rejected at the bidder's request who stated that he had misunderstood certain requirements in the specifications. Contract was awarded to the second lowest bidder for \$17,763.00.

A bid of \$72,485.00 on another project was rejected because of a variance in worded unit price of an item and the figured unit price. The extension was made using the worded unit price while the bidder stated his intention to be the figured unit price. Contract was awarded to the second lowest bidder for \$74,031.10.

Contract - Tie Bid: Two contractors submitted the same bid for a project. Since the work was such that either contractor could do equally well both were summoned to the office of the Commissioner and in his presence tossed a coin to see which company would be awarded the contract.

Contracts - Liquidated Damages Assessed: It was noted that in the case of contract #4172 for highway and bridge construction in Braintree which contract provided that work be completed by July 1, 1949, that it was approved as of October 1, 1949 and that liquidated damages of \$2,333.09 were assessed. Contract #4335 for highways reconstruction in Leicester provided for the work to be completed by November 1, 1949 but work was not approved as being completed until December 15, 1949 and liquidated damages for \$192.00 were assessed.

Bond Issue of \$100,000,000.00 for an Accelerated Highway Program: Chapter 306 of the Acts of 1949 approved and effective May 18, 1949 provided for a bond issue of \$100,000,000.00 and of this amount \$92,000,000.00 was available to the Department of Public Works and \$8,000,000.00 was available to the Metropolitan District Commission.

The \$92,000,000.00 available for the Department of Public Works was allocated by said Chapter 306 as follows:

Section 5. \$37,000,000.00 for projects to be constructed in the area set forth in the "Master Highway Plan for the Boston Metropolitan Area."

Section 6. \$53,000,000.00 for projects to be constructed in the area set forth in "The Report on Massachusetts State Highway Needs, Exclusive of Metropolitan Boston," established and defined in Exhibit A of House Document No. 1767 (1948) and for traffic studies in the urban areas and for studies to determine the feasibility of revenue producing facilities. Not less than \$5,000,000.00 of the total sum is to be expended in each of the four following districts:

- Area 1. West of the Connecticut River
- Area 2. Between the Connecticut River and easterly boundary of Worcester County
- Area 3. Middlesex, Essex, and Norfolk County including route 128
- Area 4. Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties

Section 7. \$2,000,000.00 to be expended for traffic safety devices on State highways and on roads constructed under the provisions of section 34 of Chapter 90 of the General Laws.

Section 12. This Section provides that detailed progress reports shall be filed with the governor and with the clerk of the house of representatives on December 31, 1949, June 30, 1950 and December 31, 1950, and a final report on or before July 31, 1951 relative to all projects undertaken under the provisions of this act.

Section 13. This section provides that all contracts for projects authorized by this act shall be entered into not later than June 30, 1951.

It was noted that on date of this audit none of the bonds authorized under Chapter 306 of the Acts of 1949 had been issued.

The following is a summary of expenditures and encumbrances incurred under Chapter 306 to May 12, 1950:

Metropolitan Area Projects	\$ 1,800,308 49
Projects Outside Metropolitan Area:	
Area #1 West of Connecticut River	\$ 602,540 13
Area #2 Between Connecticut River and easterly boundary of Worcester County	6,848,205 85
Area #3 Middlesex, Essex and Norfolk Counties including route 128	21,517,354 42
Area #4 Bristol, Plymouth, Barnstable, Dukes and Nantucket Counties	4,084,641 84
Areas #1 through #4 not yet distributed	112,354 50
Department Engineering and Traffic Studies	669,833 80
Force Account - Weekly Labor	39,168 49
Total Projects Outside Metropolitan Area	33,874,099 03
Traffic Safety Division (Expenditures and Encumbrances to April 30, 1950 Plus Estimated Encumbrances to May 12, 1950)	358,796 27
Total Bond Issue Expenditures and Encumbrances	<u>\$36,033,203 79</u>

Sale of Land and Property: Previous audit reports included a comment that a parcel of land on Nashua Street, Boston, was sold on May 20, 1941 for \$100,000.00. The terms of the agreement called for a down payment of \$6,500.00, the balance to be paid in eleven equal payments of \$8,500.00 payable with interest at 4%. The down payment of \$6,500.00 was made but no further payments of principal or interest have been recorded. A supplemental agreement was reached by both parties on November 16, 1943, which was approved by the Council on December 27, 1944. This supplemental agreement states in part:

".... That the further payments on the purchase price of said premises as required by the terms of said agreement of May 20, 1941 shall be suspended for the duration of the unlimited National Emergency as declared by the President of the United States on May 27, 1941....."

At the Commission meeting April 20, 1948 the matter of the agreement between the Department and the purchaser for the sale of a certain parcel of land on the northerly side of Nashua Street, Boston, Massachusetts, dated May 20, 1941 was brought up, and it was voted to refer this matter to the Director of the Division of Waterways for a report.

The report was presented at a meeting of the Commission on November 23, 1948 and was as follows:

".... On May 20, 1941 the Department agreed to sell a part of the Nashua Street parking space to for \$100,000.00; \$6,500.00 to be paid on delivery of the agreement and the balance in eleven equal annual installments starting with May 1, 1942, plus interest at 4 per cent. He states that on November 16, 1943 there was a supplementary agreement which provided that further payments beyond the \$6,500.00 down payment were suspended for the duration of the National Emergency as declared by the President of the United States on May 27, 1941," and the 1941 agreement was suspended until that date, but provided "that if it appears to the Department that the necessary materials for the construction of the building are available said Department shall give notice to said.... that on a date named in said notice said agreement of May 20, 1941 shall be in effect."

"Voted, That be notified that the agreement of May 20, 1941, shall be in effect on January 2, 1949 under the above clause of the supplementary agreement of November 16, 1943, as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945."

The following is a copy of a letter to the purchaser from the Secretary of the Commission:

November 23, 1948

Dear Sir:

This is to inform you that the agreement of May 20, 1941 between you and this Department, on the matter of the purchase of a portion of the Nashua Street, parking space, shall be in effect on January 2, 1949, under the clause of the supplementary agreement of November 16, 1943 - "that if it appears to the Department that the necessary materials for the construction of the building are available said Department shall give notice to said that on a date named in said notice said agreement of May 20, 1941 shall be in effect" - as confirmed in the supplementary agreement of October 11, 1944, subject to the readjustment of the area to be sold in the agreements of October 11, 1944 and June 5, 1945. In the opinion of this Department materials for the construction of the building are now available.

Yours truly,

/s/

Secretary

Req. Mail

It was noted that to May 12, 1950 no further payments had been made and it was understood that because of certain legal complication the matter is now under consideration by the Board of Commissioners.

It was also noted that effective as of May 1, 1950 the department issued a revocable permit to another individual to use this area under certain conditions as a parking lot evenings, Sundays and holidays, for a fee of 10% of the gross receipts.

It was further noted that when this land was sold in 1941 it was the property of the Division of Waterways but that now it is considered as relating to the Department of Public Works and not to the Division of Waterways.

Division of Waterways

Books of Account: The previous audit report stated that the books and accounts had

not been kept current and noted that no postings had been made to the general ledger since June 30, 1945 and annual financial reports had not been compiled since that date. It was noted that as of May 12, 1950 the date of this audit the general ledger still had not been posted since June 30, 1945, but it was understood that the financial reports had been prepared for the fiscal years of 1946, 1947 and 1948 and it was further noted that the report for the fiscal year of 1949 had also been compiled. The question of posting the general ledger was discussed with the head administrative clerk who stated that every effort will be made to bring it up to date.

Delinquent Billings: Previous audit reports have commented on the fact that on the dates of the respective audits, billings for use of pier facilities and license charges, were not being made currently and in many instances were months late.

It was noted that on May 12, 1950 all items for which bills had not been rendered on March 15, 1949 had been cleared with the exception of 3 items; a/c New Bedford Pier totaling \$297.97 and 4 items a/c License Charges for Tidewater Displacement at \$1.00 each or a total of \$4.00.

On May 12, 1950 bills appeared to have been rendered on all charges accruing during the period under audit except 7 items a/c New Bedford Pier totaling \$325.72 and these were billed by May 22, 1950.

From the foregoing it would appear that considerable improvement has been made in getting out the bills promptly.

Accounts Receivable: Previous audit reports noted the delay in transmitting to the Attorney General overdue accounts receivable and have contained recommendations that all accounts over one year old be transferred to a suspense accounts receivable account and given to the Attorney General for collection. This recommendation has not been adopted, consequently attention is again called to it, as the same condition was found to exist on May 12, 1950, the date of this audit. On this date it was noted that 114 accounts totaling \$5,532.40 were being carried in the active accounts receivable although the charges were incurred during the 1947 and previous years as follows:

<u>Year</u>	<u>Number of Accounts</u>	<u>Amounting to</u>
1947	40	\$2,321 75
1946	34	1,459 57
1945	5	6 00
1944 and prior	35	1,745 08
	<u>114</u>	<u>\$5,532 40</u>

Gloucester Fish Pier: Under date of February 26, 1937 the Commonwealth of Massachusetts acting by its Department of Public Works in accordance with the provisions of Chapter 311 of the Acts of 1931, Chapter 303 of the Acts of 1936 as amended by Chapter 29 of the Acts of 1937 and Chapter 91 of the General Laws leased to Gloucester Community Pier Association, Inc., the Gloucester Fish Pier with certain buildings to be erected thereon at an annual rental of \$20,000.00, lease to run for 20 years. Under date of October 10, 1945 lease was extended for a 20-year period to end September 30, 1969, and rent was increased to \$25,000.00 annually to be paid quarterly beginning October 1, 1949.

Under the provisions of Chapter 653 of the Acts of 1945 as amended by Chapter 663 of the Acts of 1947, the Department of Public Works was authorized to expend not more than \$350,000.00 to make certain additions to the building and its equipment located on the Gloucester Fish Pier provided that first the Department shall execute an agreement with the Gloucester Community Pier Association, Inc., to repay to the Commonwealth the cost of such work in 20 equal annual payments, the first payment to be made on the date of completion of said work. Such an agreement was made under date of October 10, 1945 and amended under date of September 3, 1947. The work under this project was completed on December 19, 1949 at a cost of \$349,479.34 and the first payment of \$17,473.97 was received on January 31, 1950 and the last payment will be due on December 19, 1968.

Leases Between Commonwealth of Massachusetts and the Fall River Line Pier, Inc.: By authority of Chapter 665 of the Acts of 1945 and Chapter 308 of the Acts of 1947 a lease was made for a term of 20 years from May 17, 1948 for a total rent of \$1,000,000.00 divided yearly as follows:

\$22,000 00 yearly	First 2 years	\$ 44,000 00
24,000 00 "	3rd year	24,000 00
30,000 00 "	4th year	30,000 00

\$38,000 00 yearly	5th year	\$ 38,000 00
46,000 00 "	6th year	46,000 00
51,000 00 "	7th and 8th year	102,000 00
50,000 00 "	9th to 14th year	300,000 00
55,000 00 "	15th year	55,000 00
63,000 00 "	16th year	63,000 00
70,000 00 "	17th year	70,000 00
76,000 00 "	18th, 19th and 20th year	228,000 00
	TOTAL	<u>\$1,000,000 00</u>

Said yearly rental shall be paid in equal quarterly payments as follows: to wit, the first quarterly payment to be made three (3) months following the day and year written above and subsequent payments thereafter on corresponding date of every third month in each and every year during said term.

Cape Cod Canal Pier: Chapter 554 of the Acts of 1948 approved June 11, 1948 authorized the use of this pier by the Massachusetts Maritime Academy and Section 1 of said Chapter 554 reads as follows:

"The board of commissioners of the Massachusetts Maritime Academy is hereby authorized to use the state pier on the Cape Cod canal in Buzzards Bay, in addition to the property formerly used for the purposes of the state teachers college in Barnstable, in carrying out the duties imposed upon it by law. Said board shall have control of said state pier property while it is used for the purpose aforesaid."

Following the passage of this act no further appropriations were made to the Department of Public Works for the Cape Cod Canal Pier.

REGISTRY OF MOTOR VEHICLES

REPORT No. 2621

Refunds of Fees Account of Applications for Licenses to Operate Motor Vehicles:
Previous audit reports stated:

"At present applicants file applications, together with the fee of \$6.00, with the examiner at the examination point. The \$6.00 covers the examination fee of \$2.00 and the license fee of \$4.00 covering two years. Should the applicant pass the examination, he receives a temporary license and a permanent license is mailed to him later. If the applicant fails in his examination, the license fee of \$4.00 is refunded to him in cash by the examiner. The same arrangement applies in re-examinations, except that the re-examination fee is \$1.00, so that the applicant deposits \$5.00 instead of \$6.00. It is again recommended that the Comptroller's Bureau review the routine of handling examination fees and provide some method that will eliminate the present practice of refunds being made by the examiners."

Since no action has been taken, the recommendation is again repeated.

Reconciliation of Income at the Branch Offices: Schedule No. VI indicates overages and shortages found at the branch offices when the individual branches were visited. It is again suggested that all overages and shortages be turned in to the Boston office when they occur. A shortage of \$11.50 at the Lawrence Branch was the result of a transfer of \$11.50 income cash to the Petty Cash Advance Fund.

Reconciliation of Advance Money at the Branch Offices: No advance money was found at any branch office when the individual branches were visited in connection with the current examination, since all advances had been returned to the Boston office June 30, 1949, and had not been replaced for the 1950 Fiscal Year.

Reconciliation of Earnings and Deposits - Branch Offices: The section of Schedule No. VIII showing the reconciliation of overages and shortages between earnings and deposits as per the general cash book in the cashier's office, Boston, indicates total overages of \$247.50 and total shortages of \$57.00 on July 5, 1949. (See notation on Oak Bluffs overage of \$239.50.)

Bad Checks: It is the policy of the Registry to clear bad checks through the Cashier's Office. Cash is taken from the Petty Cash Advance Fund to cover bad checks, and is returned to the Fund when the checks are made good. Bad checks are listed and forwarded to the Correspondence Section for collection.

It was noted on July 5, 1949 that there were a few bad checks dating back to 1946 and 1947, and several bearing dates in 1948. It is suggested that the amounts due on these checks be collected, and that future collections on all bad checks be kept current. If it is determined that collection of a certain check or checks cannot possibly be made, the amount of such checks should be transferred from the "bad check category" to a "loss on bad checks" category in the Cashier's Petty Cash Fund.

Analysis of Cash Sheets - Cashier's Office: It is believed that the form used to record the analysis of cash sheets could be simplified, particularly through the elimination of unnecessary columns. In this connection it is suggested that entries in the miscellaneous column of the analysis sheet be limited to \$50.00 fees received from auto light manufactures, \$15.00 fees received from companies or persons manufacturing, buying, or selling rebuilt engines and motors, and for postage received.

The analysis sheet records are a very necessary and important part of the Registry of Motor Vehicles accounting system, as the figures compiled on these sheets are used for purposes of verification of all cash received for fees by the Registry, at the several branch offices and in Boston.

Cashier's Office - Over and Short Account: The previous audit report contained the following comment:

"On April 15, 1948 the over and short account in the cashier's office had a net overage balance of \$661.84. This overage is not included in the \$2,000.00 advance fund which includes, cash shortages totaling \$1,403.45. The shortages were made up from the advance money in order to facilitate the handling of income cash records. These overages and shortages have accumulated over several years.

"It is suggested that the overage balance in the over and short account be transferred to the \$2,000.00 advance fund, so that only a net shortage balance will be shown in this account."

During the period under audit an overage of \$696.49 was transferred to the \$2,000.00 advance fund.

Cash Overages and Shortages: It is suggested that an appropriation be obtained by the Registrar of Motor Vehicles to clear the loss indicated by the net shortage as shown by the records. The over and short totals are the result of several years of handling fees in the Branches and in the Boston office, and the cashing of pay roll checks and pay roll advance slips in the office of the cashier.

The last previous time that relief was obtained for clearance of items of this type was in 1939.

Temporary Branches: Temporary branches in Taunton, Southbridge, and Plymouth were in operation during the busy registration period of 1948-1949. Twenty-four branches including the temporary branches were in operation during the same period.

Southbridge Branch - Overage: An overage of \$23.50 appeared on the records of the Boston office after this temporary office had completed its business for 1949. The overage resulted from the deposit of petty cash funds as earnings. An advance of petty cash had been received from the Worcester office.

The overage was finally cleared when the State Treasurer drew a check for \$23.50, charging the Highway Fund. The check was forwarded to the Worcester Branch of the Registry of Motor Vehicles as an adjustment.

Duplicate Certificates and Duplicate Licenses: Fees for duplicate certificates and duplicate licenses totaled \$49,823.00 for the 1948 year. The present system of recording these two items, including the filing of applications makes it hardly possible to verify the income. It is again suggested that the Comptroller be contacted relative to improving the present system.

Applications Missing from the Files: Previous audit reports have made reference to applications missing from the files, and suggestions have been made that special printed

forms be inserted in the place of applications removed from the files.

Certain information is taken from registration applications on file and forwarded to the Commissioner of Corporations and Taxation by the Registrar of Motor Vehicles. This information is necessary for the purpose of assessing yearly excise taxes on pleasure cars.

It is vitally important that all applications be kept on file, or that a special form be inserted to indicate the location of the application if taken out of the files. No registration application should be removed from the files without proper authorization from a section head.

Applications on File - "No Fee": It is once again suggested that all applications upon which a notation "No Fee" has been entered be initialed by the person granting same. It is also recommended again that the reason for the non-payment of fee be entered on the application, or attached thereto.

Advance Money - Chief Accountant: The last three audit reports contained the following:

"It is recommended that the Comptroller's Bureau be contacted relative to the installation of a cash book to record receipts and disbursements of advance money in the office of the Chief Accountant."

This suggestion has been followed and a cash book has been installed.

Licenses to Buy, Sell and Manufacture So-Called Renewed, Rebuilt or Reconstructed Automobile Engines and Parts: Chapter 321, Acts of 1949 provided for the immediate licensing and regulating of the types of business referred to therein. A license fee of \$15.00 is charged annually by the Registrar, and covers a period of one year from the date of the license.

At the date of this audit, a mimeographed form of license was being used. It is suggested that printed serially numbered license forms be obtained for use in the future.

Bus Fees - School Busses: In view of the fact that school busses used exclusively under contract for the transportation of school children may be registered for a fee of only \$2.00, it is suggested that each application for registration of a school bus should be accompanied by a sworn statement to the effect that the bus will be used only for the purposes of transporting children to and from school, and for transporting persons to and from church and Sunday school services. It is also believed that a contract entered into by the applicant for such transporting purposes should also be produced by the registrant. A notation should appear on the application to the effect that the contract had been seen, and initials of the person making the notation should also appear thereon.

Cashier's Office - Rebates and Refunds Advance Funds: The previous audit report stated:

"It is suggested that the Comptroller's Bureau should be contacted relative to the installation of a cash book in which to record the receipts and disbursements of the Fund."

This has not yet been done and the suggestion is therefore repeated. About \$150,000.00 passed through this account during the previous calendar year, and it would appear that the amount is sufficiently large to warrant the use of a cash book in which to record advances received, and total disbursements by schedule number, with monthly balancing. Inclusive check numbers should be entered as applying to each respective schedule and individual receipts or disbursements should also be entered. Such a cash book would bring all activities of this fund into a single record.

Number Plates - Manufacture and Distribution: The Registry record of plates received from State Prison for use in the 1949 year indicated many missing plates, some duplicates and many plates poorly painted, which had to be returned for repainting. The delivery of plates was so far behind schedule that original assignments had to be broken up, and 84 transfers involving 124,000 plates were made between branches. Much overtime, confusion, and expense resulted from these errors.

Split Cash Sheets: All fees collected are recorded daily on serially numbered cash sheets twenty-five numbers to a sheet. The serial numbers and the calendar year are printed on all cash sheets. These serial numbers are assigned to the various branches

each year and thus provide the bookkeeping division with a control over income. An examination of the cash sheets for the year 1948 disclosed that seven branch offices employed the printed serially numbered sheets all the time whereas the other fourteen branch offices recorded the serial numbers manually on split sheets only. The term "split sheet" is applied to describe cash sheets not fully used as the total number of fees collected for any business day rarely end in a multiple of twenty-five. The fourteen offices use the entire printed cash sheet to report fees numbering less than twenty-five and then manually number a blank cash sheet for the next day's business for the unused serial numbers appearing on the printed cash sheet for the previous business day. However, the remaining seven offices cut the cash sheet immediately at the point that the last fee is recorded and send in only the portion of the cash sheet having fees recorded. The employment of blank cash sheets defeats the purpose of the printed serially numbered cash sheets which is to furnish a control at all times. A uniform system throughout all the branches should be put into effect.

STATE AIRPORT MANAGEMENT BOARD

REPORT No. 2698

Logan Airport, State Airport Management Board: Chapter 637 of the Acts of 1948 created the State Airport Management Board with general supervisory powers over all State-owned airports, including the adoption and carrying out of sound business management policies in the management and operation of such airports. Under this act, charges and rentals for the use and occupancy of airport areas and facilities are subject to the approval of the Board. Also, all contracts and obligations of the Massachusetts Aeronautics Commission pertaining to the acquisition, construction, maintenance, and operation of Hanscom Field, and all contracts and obligations of the Department of Public Works pertaining to the maintenance and operation of Logan Airport are now to be performed by the Commissioner of Airport Management.

Logan Airport, Sale of Aviation Fuel as a Source of Income: The previous audit report stated that Section 3 of Chapter 637 of the Acts of 1948 had not been complied with by the State Airport Management Board.

Said section reads as follows:

".....Subject to the provisions of this section, the commissioner shall establish for each state-owned airport a schedule of fees for use of landing areas by aircraft for each take-off, based on the weight and other field and flight operations requirements for each individual aircraft or class of aircraft, and schedules of aircraft parking or tie-down fees, and other charges including those for the sale or distribution of gasoline or other aviation fuels, oil, and other articles and supplies on lands acquired or held for state airport purposes, and may establish schedules of other fees, charges, and rentals for the use and occupancy of airport areas or facilities, as he may deem necessary."

The following summarizes the minutes of the meetings of the State Airport Management Board from April 25, 1949 to March 16, 1950 with reference to the subject of the sale of Aviation Fuel as an additional source of revenue to the Commonwealth:

April 29, 1949 - Voted: "That the Commissioner be authorized to proceed with negotiations for rental of space and facilities by oil companies on such terms as he is ready to recommend to the board for approval."

July 22, 1949 - Voted: "That the Chair be authorized to appoint a committee of three board members to study the proposed regulation relative to gasoline and oil charges at Logan Airport and to report at the next meeting."

August 19, 1949 - Voted: "Consideration of the proposed regulation relative to gasoline and oil charges at Logan Airport was postponed."

November 8, 1949 - Voted: "The following regulations establishing charges for sale and distribution of gasoline or other aviation fuels at General Edward Lawrence Logan Airport were approved and are to be executed effective 12:01 A.M., January 1, 1950:

Truck Designation	Gross Registration Weight - Pounds	Charges per Day or Fraction of a Day	Charges per Mo. (Flat Rate)
Class I	0 - 28,000	\$15 00	\$300 00
Class II	28,001 - 35,000	20 00	390 00
Class III	35,001 - 45,000	25 00	420 00
Class IV	45,001 - 55,000	30 00	600 00
Class V	55,001 - or over	35 00	660 00

Payments to be made in advance and permits will be issued to enter designated areas for servicing aircraft."

December 19, 1949 - Voted: "The charges established November 8, 1949 for the sale of gasoline were revoked and the following were approved:

Truck Designation	Gross Registration Weight - Pounds	Charges per Day or Fraction of a Day	Charges per Mo. (Flat Rate)
Class I	0 - 3,500	\$ 1 50	\$ 37 50
Class II	3,501 - 7,000	3 00	75 00
Class III	7,001 - 28,000	11 00	300 00
Class IV	28,001 - 35,000	14 00	390 00
Class V	35,001 - 45,000	15 00	420 00
Class VI	45,001 - 55,000	22 00	600 00
Class VII	55,001 - or over	25 00	660 00

March 16, 1950 - Voted: "Effective 12:01 A.M., April 1, 1950, regulations establishing charges for the sale and distribution of gasoline and other aviation fuels at Logan Airport be rescinded."

Effective April 1, 1950 at 12:01 A.M. the following was approved:

THE COMMONWEALTH OF MASSACHUSETTS
STATE AIRPORT MANAGEMENT BOARD
LOGAN INTERNATIONAL AIRPORT
EAST BOSTON 28, MASS.

REGULATIONS ESTABLISHING CHARGES FOR THE SALE AND DISTRIBUTION OF GASOLINE AND OTHER AVIATION FUELS AT THE GENERAL EDWARD LAWRENCE LOGAN AIRPORT BY THE COMMISSIONER OF AIRPORT MANAGEMENT AND THE STATE AIRPORT MANAGEMENT BOARD, PURSUANT TO THE PROVISIONS OF CHAPTER 637, OF THE ACTS OF 1948

- For each aircraft using the portion of the ramp and apron area designated by the Commissioner for the sale, distribution and other handling of gasoline, oil and other aviation fuels, the following charges are hereby established:
 - Five cents (5¢) per thousand (1000) pounds maximum take-off weight, or major fraction thereof. Such charge will cover such use of said ramp and apron area for one (1) hour.
 - For each additional thirty (30) minutes, or major fraction thereof, during which said aircraft occupies said ramp and apron area for the purpose of fueling, two dollars and fifty cents (\$2.50).
- The charges herein established shall not apply to any aircraft, the owner of which has otherwise provided for the payment of charges for the use of said ramp and apron area for fueling purposes, through separate agreement with the State Airport Management Board.
- These regulations shall become effective at 12:01 A.M., April 1, 1950 and shall continue in effect until amended, rescinded or superseded.
- Any prior rules and regulations and schedule of charges inconsistent with these regulations are hereby rescinded.

STATE AIRPORT MANAGEMENT BOARD

Joseph J. Mulhern /s/
Chairman
J. Reed Morss /s/

/s/ Edward H. McGrath
Commissioner of Airport
Management

George A. McLaughlin /s/

Arthur D. Cronin /s/

Philip M. Morgan /s/

Approved by Board:
March 16, 1950

It was noted that from January 1, 1950 to March 31, 1950 the period during which charges were based on truck weight only Northeast Airlines had been billed. This company paid to the Logan Airport \$1,590.00 on account of gasoline charges. No other airline or operator was billed during the period under examination. However, it is understood that Infer City Aviation, Inc., was billed since the audit date.

It was stated that the other organizations using aviation gasoline were not billed because they were of the opinion that these charges were unwarranted. It is recommended that all organizations using or having used aviation gasoline on Logan Airport be billed at the rates established by the Board.

Logan Airport, Ground Transportation: The matter of charging taxicabs for the privilege of entering the airport has been under discussion by the State Airport Management Board ever since the inception of the Board. However, at the date of audit this subject was still being studied; and no directive for these charges had been issued.

Logan Airport, Vending Machines: It was noted that the reports from the various vending machine companies are apparently not confirmed by employees of the airport. When merchandise is placed in the various machines or receipts removed, the vending machine companies' agents are unaccompanied by airport employees. It is suggested that the agents be accompanied by employees of the airport when receipts are removed.

Logan Airport, Weekly Labor Pay Roll: It was seen in checking the time cards against the summary cards that in many instances the hours punched on the time cards did not agree with the number of hours listed on the summary pay roll cards. These variations were noted in the foreman's time reports which are the basis for the postings to the weekly summary cards. It is recommended that the time cards show all authorized time off for which compensation is authorized.

Logan Airport, Parking Lot: In checking the parking ticket book it was noted that 57 ticket numbers were not recorded as having been returned during December 1949, January and part of February 1950. It was further noted that in several instances numbers were checked in for having been returned twice.

The following recommendations are made to facilitate the accounting of these parking tickets:

1. The parking ticket number book should be maintained in numerical sequence at all times.
2. When a number is checked off and it appears that this particular number has been previously checked off, steps should be immediately taken to ascertain the cause of the discrepancy.
3. Examination should be made monthly of the ticket listing book to verify that all tickets turned in have been checked. The remaining tickets may be accounted for as follows:
 - a. Tickets charged against cars still in the parking lot.
 - b. Unused tickets held by the attendants.

Logan Airport, Materials and Supplies: It was noted that the unit cost of the various items in the stock ledger were not maintained in conformance with the Comptroller's Bureau Accounting Manual.

It was further noted that there appeared a net overage of \$116.96 between the physical inventory as of the date of audit, and the stock ledger record. Several adjustments had to be made in the records before it could be determined whether the ledger balances were correct. It is suggested that all purchases and requisitions be posted to the stock ledger currently.

Logan Airport, Unpaid Account: It was noted that an unpaid accounts receivable charge of \$2,258.74 appeared on the airport's records as being due from the Massachusetts National Guard. This amount represents water charges from January 8, 1943 through October 2, 1947. The National Guard in this period did not occupy the building as it was

in the Federal Service. Since this charge is apparently not owed by the Massachusetts National Guard, it is suggested that steps be taken to get advice from the Attorney General relative to its disposition. The building in this period had been at one time or another occupied by three different tenants.

Logan Airport, General: It was noted that the receipts for the fiscal year 1949 were \$382,772.91, while the cash payments for the same period were \$400,090.68. This would indicate that the airport's expenditures exceeded its receipts by only \$17,317.77. It is noted, however, that the following expenditures were paid out of the Commonwealth's General Fund in behalf of this airport:

Bond Interest Paid in Fiscal Year 1949	\$ 287,281 77
Bonds Redeemed in Fiscal Year 1949	<u>2,610,000 00</u>
	<u>\$2,897,281 77</u>

Hanscom Field, Materials and Supplies: The storeroom at this airport contains many items used for maintenance purposes. There is no stock ledger maintained at this field to control these items. Since these supplies are purchased with funds provided by the appropriation, it is again advised that an inventory be taken and a stock ledger installed.

Hanscom Field, Vending Machines: Many of the lessees at this airport have permitted vending machines to be installed on their leased premises, although their leases and permits do not indicate any provisions relative to this matter, so that the Commonwealth derives no income therefrom.

In this connection it was noted that a survey of the locations of all vending machines on the airport has been made by the airport manager's office. The result of this survey will be used later in connection with the negotiating of all future leases and permits so that some income may be derived by the Commonwealth.

Hanscom Field, East Coast Aviation Corporation: The previous audit report stated:

"It was noted that one building rented to the East Coast Aviation Corporation for the purpose of selling aviation products is also being used to sell items such as television sets, washing machines, radios, household equipment and various miscellaneous items not connected with the aviation industry. This is contrary to the terms of their lease.

"It is also understood that the East Coast Aviation Corporation uses the premises for repairing automobiles belonging to private owners. There is no authority given by their lease to do this work."

It was again noted that the same situation is still in existence. The State Airport Management Board was advised of this matter, but to date apparently has not taken steps to change the situation.

It was further noted that there is an outstanding balance due from this corporation of \$8,936.50. Of this amount \$6,255.55 represents a 1949 invoice. This corporation is still in business and is occupying all its leased space at this airport. The officers of the corporation indicated to the airport manager that the non-payment is due to the fact that a sizeable sum of money is due them from the Federal Government in connection with the corporation's schooling of veterans; and that when they receive this money the rent will be paid to the airport.

The wisdom of allowing a lessee to occupy space without making payments for rent as the payments are due is seriously questioned. Steps should be taken to arrange immediate liquidation of this unpaid balance.

Hanscom Field, Accounts Receivable: It was noted that three accounts receivable have remained unpaid for over one year. It is recommended that these accounts be forwarded to the Attorney General for disposition, and that a Suspense Accounts Receivable account be opened in the General Ledger in compliance with the Accounting Manual prepared by the Comptroller's Bureau.

Hanscom Field, Income from Per Cent of Sales of Lessees: It was noted that there are three tenants who pay rent on a basis of prearranged fixed percentages of monthly sales. The manner of payment to the airport has been by bank check. A notation of the check further indicates that it is for a percentage of the sales. The checks are, however, not accompanied by any statements showing detailed totals of sales. It is recommended

that the lessees be advised to send statements showing total sales.

Hanscom Field, Landing Fees: A review of the landing log showed that on July 26, 1949 a DC-4 number N90445 of the American Airlines landed at this airport. This airplane weighed 62,000 pounds for which a fee of \$15.50 should have been charged. No record of this billing could be found. It is advised that a proper bill be sent for this landing. It is further recommended that precautions be taken so that this type of omission will not occur in the future.

YOUTH SERVICE BOARD

General Department

REPORT No. 2656

Storeroom at Lyman School in Westborough: On June 30, 1949, all items in the stock ledger were adjusted in agreement with the actual physical inventory taken by employees of the board. A complete inventory was taken on November 17, 1949, approximately four and a half months later, and shortages of \$220.77 and overages of \$388.25 were noted. A large part of these differences was due to confusion in posting boys' suits and sport coats which were not accurately entered in the stock ledger. Some of the differences as noted follow:

	<u>Overages</u>	<u>Shortages</u>
Shoes	12 pairs	
Mackinaws	2	
Dungarees	2	
Pajamas	2 pairs	
Belts		4
Combs		39
Gloves		2 pairs
Handkerchiefs		7
Ties		6
Socks		13 pairs
Suitcases		2
Toothpaste		12
Polo Shirts		2
Farm Pacs		2 pairs
Leather Jacket		1
Shirts and Shorts		9 pairs

It is understood that the Board officials are working on some arrangement which will involve the abandoning of the present storehouse and which will include some other facilities for the outfitting of the boys with necessary clothing.

General Bookkeeping: It was noted that no monthly financial reports have been compiled since July 1949.

Special Bank Account - Boys' Parole Branch: A fund of \$1,000.00 was set up to reimburse male wards for irregularities which occurred in their respective savings accounts during the 1943 and 1944 years. Payments from this fund totaled \$947.95 leaving a balance of \$52.05 in the account. During the period covered by this audit no claims were made against this fund.

Unpaid Wages - Female Wards: Wards of the Girls' Branch are sometimes placed in private homes as domestics after an agreement is entered into with the employer providing for the rate to be paid, etc. The cost of clothing is deducted from the total wages due and generally spending money is given directly to the girl. The balance after these deductions is sent to the Girls' Branch for deposit in a bank account which is maintained for each ward. On November 17, 1949 there was due to the girls for net wages earned a total of \$1,230.62. This money has been outstanding for the following periods:

1 month	\$ 502 26
2 months	92 79
3 months	212 36
4 months	61 00
5 months	7 06
6 months	99 00
7 months	18 79
9 months	74 29

Since 1947	\$ 56 04
Since 1946	11 06
Since 1941	41 62
Since 1940	54 35
	<u>\$1,230 62</u>

The fundamental responsibility for the handling of the wards' accounts rests with this board and it is questioned that sufficient efforts are being made to see that these accounts are collected currently. The last four items in this list are in the hands of the Attorney General for disposition. During the period under audit 19 accounts not listed totaling \$308.90 were charged off as uncollectible with the authority of the Attorney General.

Verification notices were sent to all these outstanding accounts but the majority of them were not acknowledged.

It is therefore recommended that whatever facilities of the Department of Labor and Industries, which are available, be utilized in conjunction with those of the Attorney General to see that these monies are properly collected.

Division of Juvenile Training: This Board took over many of the activities of the Division of Juvenile Training in the Department of Public Welfare on January 1, 1949 as provided by Chapter 310 of the Acts of 1948.

INDUSTRIAL SCHOOL FOR GIRLS

REPORT No. 2731

Escrow Retirement Fund: The trial balance of Escrow Retirement Fund did not reconcile with the cash balance on the date of audit. There was a difference of \$1.84 between these two balances.

Farm: The farm products sent to institution for table consumption and canning per farm report did not reconcile with the general ledger for the 1948 farm year.

Inmates' Receipt Books: Book No. 4262 which was used during this audit period was not available for auditing purposes.

STATE HOUSING BOARD AND LOCAL HOUSING AUTHORITIES

Audit of Housing Authorities: Chapter 682 of the Acts of 1949 provides as follows:

"SECTION 1. Section 26NN of chapter 121 of the General Laws, inserted by section 3 of chapter 200 of the acts of 1948, is hereby amended by inserting after subdivision (c) the following subdivision:-

(d) A housing authority which sells bonds or notes to finance a project under authority of this section, or which has received funds from a city or town under authority of chapter three hundred and seventy-two of the acts of nineteen hundred and forty-six as amended, shall cause an audit to be made of its accounts annually at the close of a fiscal year by the department of the state auditor and a copy of the report of said audit shall be filed promptly with the board.

"SECTION 2. Section 8D of chapter 372 of the acts of 1946, inserted by section 4 of chapter 479 of the acts of 1947, is hereby repealed."

This Act became effective on November 15, 1949 and audits of Local Housing Authorities were immediately initiated. Approximately ninety-four housing authorities became subject to audit by this department, and from the date upon which this Act became effective until June 30, 1950, examinations of fifty-eight Local Housing Authorities were completed. During the fiscal year 1951, all active housing authorities will be audited.

General: Individual copies of audit reports for the State Housing Board and all Local Housing Authorities have been submitted to His Excellency the Governor, the Lieutenant Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Chairman of the State Housing Board, and the Senators, Representatives and all interested city officials and members of Local Housing Authorities.

Summary of Audits Completed: The following listed audits have been made since my last report to the legislature:

SCHEDULE OF HOUSING AUTHORITY AUDITS COMPLETED --- FISCAL YEAR 1949-1950

	From	To	Report No.
STATE HOUSING BOARD	Aug. 31, 1948	July 11, 1949	2633
LOCAL HOUSING AUTHORITIES:			
Agawam	July 8, 1948	Dec. 31, 1949	H-3
Arlington	Mar. 1, 1949	Feb. 28, 1950	H-21
Athol	Jan. 9, 1950	May 31, 1950	H-50
Barnstable	Sept. 14, 1949	Apr. 30, 1950	H-46
Belmont	June 2, 1949	May 31, 1950	H-49
Boston	Dec. 31, 1946	Feb. 28, 1950	H-14
Brockton	Sept. 4, 1948	Dec. 31, 1949	H-6
Brookline	Dec. 30, 1948	Apr. 30, 1950	H-30
Cambridge	Aug. 19, 1947	Jan. 31, 1950	H-9
Chelsea	Nov. 16, 1948	Dec. 31, 1949	H-2
Chicopee	Oct. 24, 1949	Apr. 30, 1950	H-44
Dalton	Sept. 7, 1949	May 31, 1950	H-54
Dedham	Dec. 16, 1948	Feb. 28, 1950	H-5
Easthampton	Dec. 24, 1949	May 31, 1950	H-48
Everett	May 14, 1948	Feb. 28, 1950	H-15
Fall River	Oct. 11, 1948	Feb. 28, 1950	H-17
Falmouth	Aug. 2, 1949	May 31, 1950	H-58
Framingham	May 17, 1946	Feb. 28, 1950	H-16
Franklin	May 17, 1949	May 31, 1950	H-53
Gardner	Feb. 1, 1950	May 31, 1950	H-57
Gloucester	Mar. 3, 1949	Jan. 31, 1950	H-10
Greenfield	Mar. 1, 1949	Apr. 30, 1950	H-33
Holyoke	July 1, 1949	Mar. 31, 1950	H-24
Lawrence	Mar. 16, 1949	Feb. 28, 1950	H-18
Leominster	Apr. 12, 1949	May 31, 1950	H-47
Lowell	July 18, 1949	May 31, 1950	H-40
Lynn	Feb. 22, 1949	Apr. 30, 1950	H-35
Malden	Feb. 7, 1949	Mar. 31, 1950	H-26
Marblehead	Apr. 22, 1949	Apr. 30, 1950	H-42
Mattapoisett	May 10, 1949	Apr. 30, 1950	H-38
Medford	Nov. 1, 1948	Apr. 30, 1950	H-37
Middleborough	July 21, 1948	Dec. 31, 1949	H-4
Millford	Feb. 25, 1949	Jan. 31, 1950	H-7
Millbury	Apr. 11, 1950	Apr. 30, 1950	H-51
Montague	Apr. 18, 1949	Feb. 28, 1950	H-19
Nahant	July 5, 1949	May 31, 1950	H-55
New Bedford	Feb. 24, 1949	Mar. 31, 1950	H-25
North Adams	Oct. 13, 1949	Apr. 30, 1950	H-34
Northampton	May 2, 1949	Feb. 28, 1950	H-20
North Attleboro	Dec. 23, 1949	Apr. 30, 1950	H-45
Northbridge	Oct. 10, 1949	Apr. 30, 1950	H-41
Pittsfield	July 8, 1948	Mar. 31, 1950	H-31
Plymouth	Sept. 2, 1949	May 31, 1950	H-39
Salem	Feb. 28, 1948	Nov. 16, 1949	H-1
Somerville	Feb. 15, 1948	Mar. 31, 1950	H-23
Springfield	Aug. 15, 1947	Jan. 31, 1950	H-8
Taunton	June 14, 1948	Jan. 31, 1950	H-11
Uxbridge	Apr. 5, 1949	Mar. 31, 1950	H-28
Waltham	Dec. 30, 1948	Mar. 31, 1950	H-27
Watertown	Feb. 23, 1949	Mar. 31, 1950	H-29
Webster	Nov. 29, 1949	Apr. 30, 1950	H-52
Westborough	June 30, 1949	Apr. 30, 1950	H-32
Westfield	July 19, 1949	Apr. 30, 1950	H-36
West Springfield	May 29, 1948	Feb. 28, 1950	H-13
Woburn	Jan. 6, 1949	Feb. 28, 1950	H-22
Worcester	May 29, 1947	Jan. 31, 1950	H-12

STATE HOUSING BOARD

REPORT No. 2633

General: It is a commonly accepted belief that the State Housing Board supervises all projects under both Chapter 372 and Chapter 200. This is not entirely correct, for while control of projects under Chapter 372 is under the direction of the full Board, administration of Chapter 200 has been confined exclusively to the direction of the Chairman of the Board.

Under Chapter 372, with some State subsidy, the main financial risks involved in supplying housing, lie with the city or town concerned; under Chapter 200 all financing arises from State backed bond issues, and projects will also be subsidized by payments from the Veterans' Fund.

Under Chapter 372 more than 4,200 units for temporary housing have been provided. In addition, forty-six projects have already provided 1,225 housing units with another 554 units under construction, and provision has been made for 39 additional units.

The following summary shows construction progress under Chapter 200 as of June 24, 1949:

Number of communities with projects in construction stage	26
Number of units in projects in construction stage	4,049
Number of units completed for occupancy	218

Financing: The previous audit report stated:

"Although bonds issued for construction of housing units have the advantage of the financial backing of the Commonwealth, each local housing authority will issue its own bonds. It is anticipated that the interest rates on these issues will vary, despite the common State guarantee, and that the rate will be higher than the rate of interest paid on regular State bonds. This will place an additional burden upon the entire program, and it is recommended that the chairman seek amendment to the present statute to provide that all bond issues shall be made in the name of the Commonwealth."

Attention is now directed to the fact that the State of Connecticut had originally planned to finance its local housing projects in the same manner that current Massachusetts statutes now provide. Under these original provisions various cities and towns in Connecticut have issued short-term notes, guaranteed by the State to provide construction funds, and these notes when issued have carried interest at rates of between .75% and 1.14%. The 1949 session of the Connecticut legislature changed the financing section of the housing statutes to provide that all future borrowing, either temporary or permanent, will be done directly by the State of Connecticut and that from the proceeds of such borrowings the State would make loans to the individual housing authorities bearing interest at the same rate that the State was required to pay. Under this revised statute the State of Connecticut has borrowed \$10,000,000.00 at a rate of .45% which represents a saving of approximately 50% in interest costs, and will result in substantial reductions in rental costs to the occupants of this housing.

Examination of temporary borrowing by local housing authorities within the Commonwealth of Massachusetts will demonstrate that such loans have been procured at rates varying between .647% and .959%. It will be noted that these interest rates are substantially higher than the rate procured by the State of Connecticut.

No permanent financings have been attempted to date in Connecticut or Massachusetts, however, it must be considered that the same favorable rates will apply to State borrowings that exist under temporary financing.

It is again recommended that the Chairman of the State Housing Board seek revision of the existing Massachusetts statutes, so that lower interest rates may provide reductions in housing costs and eventually result in lower rentals to all occupants.

Veterans' Fund: Under present construction costs, rentals to maintain the financing of these projects may be beyond the ability of the average veteran to pay. For the sole purpose of reducing such rentals, Chapter 200 provides for a subsidy up to 2 1/2% per year to be paid from the Veterans' Fund. In view of the fact that \$200,000,000.00 in construction has been authorized, this subsidy can amount to \$5,000,000.00 per year.

Personnel: Under Chapter 260 of the Acts of 1948, the State Board of Housing was abolished and the State Housing Board created. The Chairman of the new board was authorized to appoint such experts, counsel, clerks and assistants as the work of the board

would require, and to make such other expenditures as would be necessary.

On date of audit, the State Housing Board had 154 employees.

Contracts for Financial Assistance - Not Approved By Attorney General: Of the sixty-four contracts for financial assistance reviewed, only seventeen had letters of approval from a member of the staff of the Attorney General. The reason given was that the policy toward requiring this letter had changed several times during the past year. At the time of the audit, all contracts were being inspected by a member of the staff of the Attorney General and were not signed by the Chairman until approved by the Attorney General.

Board Members Travel Expense: On December 20, 1948, an opinion of the Attorney General was received stating that since April 28, 1948, the date the State Housing Board was established and the State Board of Housing abolished, members of the State Housing Board were no longer entitled to traveling expenses from their homes or places of business to the office provided by the Commonwealth.

Between April 28, 1948 and December 20, 1948, travel vouchers of Board members had continued to be paid. These vouchers included expenses from homes or places of business to 18 Tremont Street, Boston, as well as expenses in connection with authorized trips to sites of projects.

No travel vouchers for Board members have been approved for payment by the Comptroller's Bureau since November 16, 1948, and none have been paid through the petty cash advance since December 20, 1948. On June 30, 1949 there were on hand approximately \$433.28 in unpaid travel vouchers of Board members.

This amount was included in the reserve for encumbrances of \$774.54 in this account. These vouchers were examined and found to contain requests for repayment of travel expenses from homes or places of business to 18 Tremont Street, Boston, as well as other expenses in visiting projects and the like.

On July 21, 1949, Chapter 577 of the Acts of 1949 was enacted. This law, amending Chapter 260 of the Acts of 1948, places the members of the Board on a "per diem" basis, thereby allowing them the expenses in question. This legislation was made retroactive to the date of establishment of the Board, and all expense accounts held in abeyance were submitted for payment on October 21, 1949.

Audit of Local Housing Authorities: Chapter 682 of the Acts of 1949 provides as follows:

**"An Act Relative To Auditing The Accounts Of Housing Authorities
Operating Veterans' Housing Projects.**

Be it enacted, etc., as follows:

Section 1. Section 26NN of chapter 121 of the General Laws, inserted by section 3 of chapter 200 of the acts of 1948, is hereby amended by inserting after subdivision (c) the following subdivision:

(a) A housing authority which sells bonds or notes to finance a project under authority of this section, or which has received funds from a city or town under authority of chapter three hundred and seventy-two of the acts of nineteen hundred and forty-six as amended, shall cause an audit to be made of its accounts annually at the close of a fiscal year by the department of the state auditor and a copy of the report of said audit shall be filed promptly with the board.

Section 2. Section 8D of chapter 372 of the acts of 1946, inserted by section 4 of chapter 479 of the acts of 1947, is hereby repealed."

Audits of local housing authorities will be initiated immediately after the effective date of this act.

Subsidies - Chapter 372 Projects: It was noted that although ten localities had completed and occupied Chapter 372 projects only three were receiving State subsidies.

Permanent Financing Chapter 200: It was noted that although several Chapter 200 projects had been completed to the point of occupancy, none had been transferred to permanent financing, and notably in the case of the Chelsea project, the original temporary notes, having matured, were replaced by further temporary notes.

AGAWAM HOUSING AUTHORITY

REPORT No. H-3

Temporary Notes: The financial records of the Authority do not reflect the redemption of temporary notes, series #1 and #2 in the amounts of \$50,000.00 and \$290,000.00. They also do not reflect the receipt of cash on temporary notes, series #3, in the amount of \$340,000.00.

Minutes: The minutes of the meetings of the Authority were not signed by the Secretary for the dates, March 10, 1949, June 2, 1949, June 17, 1949 and September 1, 1949.

Rents: Rents computed have not been rounded out to nearest half dollar as required by Section 3b of Management Resolution, adopted August 11, 1949 by the Agawam Housing Authority.

Custodian: The custodian of the project is not charged for his utilities and it is assumed that this adjustment has been made in lieu of additional salary. It is recommended that the Authority pay the custodian a gross salary and that his rent be computed in the same manner as the other tenants of the project.

ARLINGTON HOUSING AUTHORITY

REPORT No. H-21

General - Books and Accounts: This examination was initiated on March 29, 1950. It was noted that the cash book and general ledger of the Development Account had not been posted since February 28, 1950. The general ledger was not in balance and out of agreement with supporting detail. A few instances of posting direct to the cost analysis from the record of original entry with no posting to general ledger were observed. In other instances, postings had been made without supporting journal vouchers. It was also noted that folio columns were incomplete as to references regarding postings. Books had been kept on a "cash accrual" basis.

Although the Administrative Fund Agreement had been signed on February 8, 1950, rent receipts and security deposits were kept in development funds until February 27, 1950. No management books had been opened on date of audit.

Development Costs: It was noted on date of audit that there was no control account for development costs in the general ledger as prescribed by the Manual of Accounting Procedure issued to the Authority by the State Housing Board. A few instances of improper charges to the sub control accounts were noted. These matters were brought to the attention of the Executive Director.

The project was originally planned to cost \$1,600,000.00, but it was noted that the actual cost will be approximately \$150,000.00 less than estimated.

Development Fund: There was but one account in the general ledger for the three different bank accounts. The Manual states that a separate account be maintained in the ledger for each bank account and this recommendation is made.

Petty cash disbursements were recorded on the back of an envelope. It was recommended that vouchers be used to provide a more adequate control over these disbursements.

Investments: The investment was shown on the books at cost instead of at face value with a contra account (unearned discount) as prescribed by the Manual. The interest expense was adjusted by the amount of discount earned on date of audit.

Prepaid Insurance: Insurance had been charged to development costs when purchased; an analysis of the policies disclosed \$24.86 of premiums unexpired.

Liabilities: It was necessary to set up an account, "Accrued Salaries and Wages" for February earnings not paid until March.

A liability for legal services for the month of February also existed, and it was noted that there was a contingent liability of approximately \$2,500.00 for land taken by eminent domain.

Management: No records other than rent receipt book, tenants' Accounts Receivable register and bank statement were available on date of audit. It was recommended that books be opened immediately.

Administration Fund: Moneys received from rent and security deposits are both

deposited in the same account. In making the reconciliation of receipts to the bank statement, it was noted that the bank balance on March 3, 1950 was \$2.71 in excess of the collections per receipt book. It was further noted that employees collecting rents had made change out of their personal funds and the intermingling probably resulted in the excess. To remedy this situation, the use of a change fund was suggested. Tenants' Security Deposits should also be segregated and placed in a special account.

Deposits of Receipts: On date of audit, receipts for rents and security deposits in the amount of \$500.00 were on hand and not deposited until March 2, 1950. It was recommended that receipts be deposited daily.

Rents: It would appear that the rents charged to present occupants are sufficient to meet the budget requirements estimated by the State Housing Board. However, the project is but partially occupied and until such time as it is fully occupied a final determination of the adequacy of the rentals cannot be made. It was noted that the Authority has been corresponding with the State Housing Board as regards an increase in the budget.

BARNSTABLE HOUSING AUTHORITY

REPORT No. H-46

Chapter 372 - Reconciliation of Bank Account: During the period under audit the check book had not been reconciled with a statement furnished by the depository.

It is advised that the bank account should be reconciled monthly.

Chapter 372 - Fire Insurance: As of the date of the audit the Chapter 372 project was not protected by fire insurance. During the course of the audit, steps were taken to procure the necessary insurance coverage.

Chapter 372 - Accounting Records: It is recommended that individual income and expense general ledger accounts be maintained as outlined in the instructions of the State Housing Board.

Chapter 372 - Charge-Offs of Uncollectible Accounts Receivable: During the period under audit tenants' accounts receivable totaling \$748.00 were charged off as uncollectible. Although no authorization for such action was noted in the minutes of the meetings, individual members of the Authority stated that approval had been given, and that it was apparently an oversight that this information was not included in the minutes of the board's meetings.

Chapter 200 - Surety Bonds: It is recommended that all persons connected with the handling of funds be bonded.

BELMONT HOUSING AUTHORITY

REPORT No. H-49

Construction Contract: This Authority considered the financial ability and experience of the lowest bidder on the Construction Contract inadequate to perform work of this size and accordingly awarded the contract to the second lowest bidder. The State Housing Board did not concur and therefore would not approve this contract until the lowest bidder withdrew his bid. The lowest bidder in withdrawing his bid indicated that this action was prompted by his wish not to delay the construction of veteran's housing.

Conditions of the Contract: Section 52 of the general conditions of the construction contract reads as follows:

"No member, officer, agent or employee of the Authority or of the town of Belmont shall, directly, or indirectly, have any financial interest in any property to be included in, or any contract for property, materials, equipment, labor or services, to be furnished or used in any way in connection with the project or this contract."

It was noted, however, that the Authority had entered into a contract for maintenance of the project in the amount of \$4,920.00 with a company of which the Treasurer of the Housing Authority was President. The Authority also approved other work performed by this company in the amount of \$975.00. This company was also paid the amount of \$1,639.00 for washing all the windows in all the houses in the project although the minutes of the meetings indicate authorizations only for washing windows in two houses.

Premium on Notes: The premium received on notes issued to finance the cost of the

project had been credited directly to development costs. The premium is but an adjustment of the interest rate and, as such, a portion of each interest charge should be set off against the appropriate amortization of the premium. On date of audit, the unamortized premium amounted to \$8,238.16.

Rent Receipts: In reconciling rent receipts to deposits, it was noted that on occasion receipts were held for a few days prior to deposit. It was further noted that the employee of the Authority collecting rents was not bonded.

BOSTON HOUSING AUTHORITY

Chapter 372

REPORT No. H-14

General - Pay Roll Records and Time Reports: A test check was made of the pay roll ledger to the daily time reports which are supposedly turned in by each department head. It was noted in many instances that no daily reports were submitted by or for certain employees, yet in each case the employee received a complete week's salary or wages. Four employees submitted only weekly time reports. One employee did not submit any report for the month checked. As of January 3, 1950, daily time records are entered on personnel cards but accuracy cannot be guaranteed because of the foregoing situation.

At the date of audit checks were issued for pay roll to only sixteen out of a total of four hundred employees. The other employees were paid in cash. Upon receipt of a cash payment each employee signs a receipt, but the amount received is not indicated on the receipt and therefore it could not be completely verified. It was also noted that the pay roll clerk who prepares the pay roll also keeps the pay roll records. These duties should properly be performed by two individuals in the interests of internal control.

General - Inter-Fund Transfers: Disbursements made from a State fund are often advanced from Federal Funds. It is suggested that instead of borrowing directly that the disbursements be met from the revolving fund to which contributions have been made by each fund, both State and Federal. This will eliminate the setting up of contra accounts in the State and Federal books of accounts.

Cash - re Accounts Receivable: An examination of the records pertaining to the income received from rentals of dwelling units under Chapter 372 indicated a variance between the income records and the bank deposits. It is understood that as of February 28, 1950, this difference totaled \$1,377.52. This was partly due to an accumulation of undeposited receipts on hand as of March 9, 1950, in the amount of \$403.15 which was included with the deposit of that day. In this connection it was noted that entries for rental cash receipts are made on rent cards by the cashier who then makes summary sheets from these postings which are used as a posting medium by the bookkeeper. Daily statements as to the amounts of cash received, however, were not made up by the cashier for a period of several months preceding the amount date, and it was determined that the monthly cash receipts per the books had not been in agreement with the deposits per the bank statements from January 1949 to the date of audit.

Attention is called to the fact that a bookkeeping machine was installed while the audit was in progress to record daily receipts of rent. It is suggested that all receipts be deposited daily and that the deposits be reconciled daily with the cash book entries.

Returned Checks: Instances were noted in which checks returned by the bank for various reasons were not charged back to a particular accounts receivable account. These checks are held in the office until new checks are received from the payees. These new checks are then deposited. Because of this procedure the books do not show the transactions with returned checks. When this matter was discussed with the Authority's personnel, adjusting entries were made to correct these omissions. It is recommended in the future that the amounts of returned checks be charged to accounts receivable.

Subsidiary Accounts Receivable: The trial balance taken of the individual tenant's accounts receivable as of the audit date did not agree with the balance of the control account. A detailed audit of the transactions indicated many errors in postings to the control account. Adjusting entries were made during the course of the audit, to bring the control account into agreement with the subsidiary accounts receivable.

Tenants' Leases: An examination of tenants' leases indicated several that were not signed by the tenant. Many leases could not be located in the files. In comparing the leases with the rate and space cards, a few variances were noted in the rate, terms and cancellation data as appearing on both sets of records. It is advised that all leases be

signed by a qualified representative of the Housing Authority and by the tenant.

Interest on Bonds and Notes Issued by City of Boston: It was noted that no interest expense on the bonds and notes issued by the City of Boston has been entered on the books of the Housing Authority as a part of the development costs. It was explained that the State Housing Board has not yet made any certification of costs with regard to the project constructed under authority of this chapter. When this certification is received, the amount of interest to be entered as a part of the development cost will be determined, and the Commonwealth will contribute 2 per cent of this cost as provided by statute.

Contracts: As of the date of audit there were two building construction contracts and one road utilities and grading contract in litigation. It is understood that the obligations of the contractors have been taken over by bonding companies in connection with the building contractors, while the third contract is now pending in court. These contracts in litigation were unavailable for examination in connection with this audit.

Certification of Chapter 372 Projects by the State Housing Board. It was noted that none of the projects completed and occupied under Chapter 372 have been certified by the State Board of Housing for reimbursement of the 2% per year for five years, based upon development costs, by the State to the City of Boston as set forth in Section 12 of Chapter 372 of the Acts of 1946, as amended. As of the date of audit, the majority of the projects authorized under this Chapter had been completed.

It was noted with reference to many of the projects that no certificate of completion had been given to the contractor because no agreement had been reached as to the actual completion.

Attention is called to the fact that approval by the State Housing Board for reimbursement of development costs cannot be granted until it obtains the necessary detail from the Boston Housing Authority showing the true development costs for each project. In a few instances the cost could not be accurately determined because of the pending litigation.

In a few instances certificates of completion have been given to contractors, but the cost data necessary for certification had not yet been completed by the Boston Housing Authority.

The Commonwealth has appropriated funds in the 1950 fiscal year for the purpose of this reimbursement to the City of Boston, but because of lack of certification of the projects by the State Housing Board, payments have naturally not been made. It is understood that funds have again been encumbered for this purpose. It is, therefore, recommended that the Boston Housing Authority forthwith furnish the State Housing Board with necessary data for certification of the completed projects so that the City of Boston may obtain the funds which are available to it.

Expenditures for Wallpaper in Excess of Authorization: In connection with the purchase of wallpaper by the Housing Authority for certain construction projects it was noted that the expenditures amounted to \$11,773.63, exceeding the authorization of \$8,935.80 granted by the State Housing Board in the amount of \$2,837.83. Attention is called to the provisions of Section 7 of Chapter 372 of the Acts of 1946 which states in part:

"No expenditure shall be made by any city or town, of a housing authority, board or officer acting as agent for such city or town in carrying out the provisions of Section 4 or Section 6, of more than \$1,000.00 in any year without the approval of the State Board of Housing."

Blueprints and Photographs Purchased without Bids: In checking the supplies purchased by the Housing Authority for the period under audit, it was noted that a total of \$21,893.92 of blueprints was purchased without inviting bids. It was noted that \$12,584.06 of this amount was expended with one concern in small lots during a short period. Later in the audit period the Housing Authority ceased doing business with this concern and placed all of its business, which amounted to \$9,309.86, with another concern.

It was also noted that during the period of audit the Boston Housing Authority directed all of its photographic work, in the amount of \$3,319.50, to one photographer without public invitation of competitive bids.

Chapter 200 - Project 200-1

General: Although audit was initiated on March 9, 1950, the various books pertaining to this project were posted only through January 31, 1950. Postings were finally completed and the records were made available for audit on April 19, 1950.

Cost Analysis: It was noted that the general ledger and the subsidiary cost analysis book on the date of audit did not agree in the amount of \$567.13. In order to bring these books into agreement, suspense accounts were set up in the general ledger. Further examination indicated that this situation had existed since November 1948, and it was finally determined that the error was actually made in the cost analysis ledger and the two suspense accounts should, therefore, never have been set up. The practice of setting up accounts of this nature should be discontinued as it is not considered good accounting practice to handle unlocated differences in this manner.

Rental Income: A survey of the income reported by the various tenants which is apparently the basis for the establishment of charges for monthly rent showed that six families were paying \$3.00 per month more than necessary and one family was paying \$9.00 per month more than necessary. Four families were apparently paying \$3.00 a month less than the amount required by the State Housing Board Income Schedule.

Security Deposits: A trial balance of the Security Deposits Account showed that a \$10.00 deposit required of all tenants has not been collected in full from every tenant even though some have occupied apartments since the inception of the project. It is suggested that this deposit be collected from all tenants.

Deposits on Plans and Bid Deposits: It was noted that deposits on plans are kept in the office of the Construction Department and are later returned to the contractors or bidders when the plans are returned directly by that section. In this connection, the Manual of Instructions of Accounting Procedure issued by the State Housing Board provides as follows:

"Deposits During Development Period: The credit balance of this account represents the amount of deposits placed with the local authority during the development period and subject to refund. This includes such items as earnest money, deposits on blueprints, etc."

It is recommended that an account be set up for these items in compliance with the above regulation on the records of the Authority. In order that this be properly accomplished the actual deposits should be turned over to the financial section of the Authority.

Accounts Receivable: An analysis of tenants' accounts receivable showed that many balances were long overdue and many are due from tenants no longer living in the projects. It is recommended that a suspense account be set up for the control of these doubtful accounts receivable where they may be segregated without confusing the handling of the regular active accounts receivable.

Inter-Fund Disbursements: The Manual of Instructions of Accounting Procedure for the use of local housing authorities issued by the State Housing Board on State-aided projects states in part as follows:

"Costs incurred for expenses with respect to anticipated projects under future statutory projects, are not eligible disbursements from the Development Fund of an existing statutory project."

In this connection it was noted that disbursements were made from Project 200-1 to anticipated Chapter 200 projects in order to meet expenses incurred prior to the issue of the temporary notes.

Inter-Development Transaction: It was noted the accounts receivable account included \$221,091.02 due from other funds. As of the date of audit this amount was found to have been disbursed by other funds, but had not been recorded as a receipt by this fund until subsequent to the date of audit.

Premium on Sale of Notes: The development cost is understated because of an unusually large premium amounting to \$207,071.57 received from the sale of the third issue of temporary notes. This premium will be written off against the interest cost at the end of the year at which time a more accurate development cost total will be indicated in the records.

Expenditures: An examination was made of the invoices for the purchase of refrigerators and ranges. Although the total number of apartments is only 1,044 in Projects

200-1 and 200-2, 1,050 refrigerators and 1,045 ranges were ordered and charged to development cost. It was explained that the purchase of the six additional refrigerators and the one additional range was made for employees of the Authority. A subsequent cash entry was noted for the payment by certain unidentified employees.

Purchase of Fuel Oil: It was noted that a contract for fuel oil was not given out on bid as is apparently required. A comparison of invoices with the contract indicated that the type of oil specified in the contract was not what was actually delivered.

Laundrette Concession: It was noted that a three-year lease exists between a concessionaire and the Authority, granting the former sole right to install and operate washing machines of the coin operated type, in return for which the Authority is supposed to receive 20 per cent of the gross income. This lease was granted without bidding or any other type of competition and was not approved by the Chairman of the State Housing Board.

This action appears to be in violation of the Contract for Financial Assistance signed by the Boston Housing Authority and the State Housing Board which provides in part as follows:

"The Authority will not, without the prior approval of the State Housing Board Chairman, (1) award or enter into any contract for utilities or equipment, or any other contract during the management or operation of, the project by the Authority."

In this connection it was learned that another town in this area invited bids for this concession, and received bids offering to pay up to 40 per cent of the gross income under comparable conditions as found in Boston. The same concessionaire who has the Boston contract at only 20 per cent, bid 37 1/2 per cent in an unsuccessful effort to obtain the contract in the other community.

It was also noted that comparable conditions, insofar as the awarding of the laundrette concession, applied in connection with the five multiple projects coming within the scope of Chapter 372.

Insurance: This project has been covered by "binder" since July 1949, at various amounts as units were completed. With the completion of all buildings of the 200-1 Project, a policy of fire insurance in the amount of \$8,000,000 covering all buildings completed since September of 1949 was issued by a stock company on the basis of a "binder." No premium has been paid on this binder and no liability was set up on the books. It is understood that this will be done when a policy is actually issued. It appears that the State Housing Board will apparently not approve the policy to be issued on the binder now held because it issued instructions to local boards as to the type of coverage to be obtained as of March 1, 1950, which coverage is on a blanket basis. The Housing Authority should receive a Certificate of Insurance under the master policy which describes the project, term of insurance, amount of insurance, and the premium to be charged, etc.

Equipment Contract: An examination of the bids on refrigerators for Projects 200-1 and 200-2 indicated that the contract for 639 units for six cubic foot boxes was awarded to a high bidder.

Tabulation of bids on the 639 refrigerators follows:

Bidder	Unit Price
A	No Bid
B	No Bid
C	\$114.03
D	113.92*
E	113.87
F	109.60

* Received award of contract

At the meeting of the Housing Board on June 29, 1949, three members voted in favor of the second highest bidder. The Chairman, who is also the appointee of the State Housing Board, dissented and "asked to be recorded as recommending award to the lowest bidder."

The failure to award this contract to the lowest bidder resulted in an additional cost of \$2,760.48 for these refrigerators.

The general counsel of the Boston Housing Authority indicated that this contract was

given in the interest of standardization rather than on the basis of lowest unit cost. It was learned, however, that subsequent purchases of six cubic foot refrigerators were made from this low bidder, who was a manufacturer other than the successful bidder. There appears to be no provision of any kind which prescribes that equipment on all projects shall be of like manufacture.

Grant for South Boston Housing Project from City of Boston not Recorded on Housing Authority Books: On November 10, 1948, the City of Boston appropriated the sum of \$84,554.92 from its Reserve Fund as a grant-in-aid to the construction contract of the South Boston Housing Project. The reason for this grant was the refusal of the State Housing Board to approve the contract award of \$11,978,042.92 to the general contractor who submitted the lowest general bid which included two-sub-bids which exceeded by \$84,554.92 the lowest sub-bids in their respective fields. Upon notice that the general contractor refused to accept the substitution of the two lowest sub-bidders, the State Housing Board on September 17, 1948 withheld its approval of this construction contract. On October 11, 1948, the State Housing Board received a communication from the Housing Authority stating that the City of Boston proposed to make a capital donation of \$84,554.92 on the construction contract, the amount of the variance in the bids. The State Housing Board on October 20, 1948, gave its approval to the Housing Authority to award the construction contract subject to the condition that the City of Boston would pay this amount.

On November 5, 1948, the contract was awarded which, together with contract changes made during construction, amounted to \$12,087,039.22. The construction of the project was completed on September 23, 1949. Payments amounting to \$12,083,539.22 were made on this contract on or prior to January 17, 1950. The records of the Authority fail to show that the grant was ever set up on its books. It does not appear that an official request for the money was made to the City of Boston until the matter was brought to their attention in June 1950, subsequent to the time it was brought to the attention of the Authority in connection with the current examination.

Architects' Contract - Project 200-1: On the date of audit the records indicate a balance due the architect on Project 200-1 of \$45,552.15 which represents only 35 per cent of original fee of \$130,149.00. Inquiry as to why this fee was unpaid indicated that the architect had submitted the invoices as follows:

For professional services in regard to supervision of contract, 35% based on construction contract awarded November 5, 1948.	\$156,458 93
For difference in cost in 1946 for working plans and specifications based on a bid received August 22, 1946, for construction amounting to \$6,977,000.00	33,592 66
(No contract was awarded on bid of August 22, 1946)	\$190,051 59
Balance per Authority books February 28, 1950	45,552 15
Variance	<u>\$144,499 44</u>

An examination of the contract dated January 11, 1946, and the amendment thereto dated February 27, 1947, with related detail, indicated the following:

1. Under the terms of the amendment the architect contended that he performed all services required of him to be performed under the contract for the payment to him of the third installment of the fixed fee as described in Section 4, Subsection (d) Page 10, of the contract which amounted to 5 per cent of the fixed fee which brought the total paid to the architect to date up to 65 per cent of the fixed fee which covered: (a) 20% - Preliminary drawings and specifications, (b) 40% - Working plans, and (c) 5% - Execution of principle construction contract as follows:

"In consideration of the payment of the third installment of 5 per cent the architect agreed to release and forever discharge the Authority from all debts, demands, actions, causes of actions, suits, accounts, covenants, agreements, and any and all claims, demands, and liabilities whatsoever of every name and nature, both in law and equity, arising out of or by virtue of the said contract for all services performed to the day of the date hereof."

2. Under the terms of the contract there appears to be no specific provision which increases the architect's fee from the fixed fee based upon the estimated cost to a fixed

fee based on the development cost. The only reference to construction costs affecting the architect's fee appears under Section 5b of the contract which reads as follows:

"If the Authority shall have determined that by reason of increases in the cost of labor or materials since the date of the execution of this contract the construction cost of the Improvement has been raised above the Estimated Improvement Cost and the Architect shall have been required by the Authority to prepare any new or additional documents or made any changes as are referred to under Section 5(a) above in order to reduce such construction cost; then in any such event, the additional documents shall be prepared and the changes so required shall be made, and the Architect shall be entitled to compensation for the portion of such work performed by him on the same basis as provided in subparagraph (j) of Section 3, and the Architect shall be entitled to reimbursement on the same basis for the portions of such work performed by the collaborators.

"It is provided that if, during the calendar year 1946 there shall be one or more revised schedules of fees for architectural and engineering services effective on projects approved by the Federal Public Housing Authority or its successors or assigns, then the total fixed fee established in Section 4 of this contract shall at the option of the Architect be adjusted or readjusted to conform to any such revised schedule of fees.

"The Architect shall not be entitled to any compensation hereunder or under subparagraph (j) of Section 3, unless, within 10 days after being caused extra drafting or other expense under said subparagraph (j) or after he shall have been required by the Authority to make changes or prepare new or additional documents under the provisions of this paragraph, he shall have delivered to the Authority in writing a detailed statement showing the amounts to which he shall have become entitled, including the details of pay roll costs of drafting and the services performed by him."

No evidence was found allowing the Architect to come within the provisions of the above section.

It was noted in the minutes of the Boston Housing Authority dated March 22, 1950, that it was voted to approve payment for both invoices totaling \$190,051.59 to this architect. On March 31, 1950, the Authority informed the State Housing Board of their approval of this bill and requested approval for payment.

The action of the Authority in approving both bills, the total sum of which far exceeded the balance on the books was, it appears, premature since the contract provided for arbitration where a fee in excess of the agreed amount was being requested of the Authority, in the following manner:

"17. Arbitration. Any controversy arising under this contract which might be the subject of a personal action at law or of a suit in equity shall be submitted to arbitration at the choice of either party in the manner hereinafter provided and subject to the provisions of General Laws (Ter. Ed.) Chapter 251. Each party shall appoint one arbitrator within ten days from the request for arbitration and the controversy shall be submitted to the arbitrators within 30 days from the request for arbitration. In the event the two arbitrators already appointed are unable to agree within a period of ten days, then a third arbitrator shall be appointed by the two arbitrators therefore appointed and acting, and if they are unable to agree upon a third arbitrator within three days, then such third arbitrator shall be appointed by the Federal Public Housing Authority."

Because of the considerable lapse of time between the last payment on this contract in February of 1947 and the date the construction contract was awarded in November 1948, it would appear that a new contract between the architect and the Housing Authority should have been drawn up to serve as a basis of payment for the remaining 35% of services to be performed under the original contract. To date no such contract has been negotiated.

Chapter 200 - Project 200-2

Accounts Receivable - Tenants: Pro-rata charges to tenants' accounts at the time

of admission were checked to executed leases. In two instances tenants were undercharged \$2.20 each per month.

It is, therefore, recommended that the manager take the necessary step to bring the two tenants' accounts into agreement, taking into consideration pro-rata period of the leases.

Contract Account: All awarded contracts pertinent to the development of the project are supposedly recorded in a "Contract Award" account. A detailed analysis of this account indicated that the following transactions recorded in the development subsidiary records had not been recorded in the aforementioned general ledger contract account:

1. Change orders totaling \$12,693.41
2. \$3,500.00 paid construction contractor
3. \$4,200.00 refunded by the architect
4. Payments to architect totaling \$35,262.50
5. Gas range contract payment of \$3,477.36
6. Refrigerator contract payment of \$4,101.12

The "Contract Award" account was corrected by the above amounts while this examination was in progress:

Accrued Interest on Temporary Notes: On February 28, 1950, the general ledger showed accrued interest of \$6,658.74 which represented unpaid monthly interest charges to development. On examination of the interest accrued computation, it was found that the total interest should have been \$6,636.32, a variance of one day's interest charges. While the audit was in progress the accrued interest account was adjusted by journal entry.

Management Receipts and Disbursements: Project 200-2 is managed jointly with the Federal Project 2-4. Cash receipts and disbursements of the State project are recorded in the Federal books and go through the Federal bank account. These items are set up on the State's books as a contra account with the Federal books. It is recommended that a separate bank account be set up for the State projects so that the funds will not be intermingled.

Insurance Coverage: The project is insured for \$500,000.00 for fire and extended coverage. There is no actual insurance policy in effect, the coverage being made through the Traveler's Fire Insurance Company by means of monthly binders. It is understood that an application has been filed for the insurance policy.

Earned Surplus: There is no surplus account in the general ledger management accounts. As of February 28, 1950, total income amounted to \$12,567.79 and total expenses \$2,794.58. The excess of income over expense of \$9,773.21 normally represents earned surplus.

Contract for Financial Assistance: This contract between the Commonwealth of Massachusetts, acting by and through the State Housing Board and the Boston Housing Authority, deals with State financial assistance in the form of a guarantee by the Commonwealth of the \$876,000.00 worth of temporary notes issued to finance the cost of development of the project, and annual contributions subsequent to permanent financing through bond issue. On May 5, 1949, the total authorized notes were sold having the maturity date of May 15, 1950.

Section 4 (d) of this contract provides that the Boston Housing Authority shall reimburse the Commonwealth for reasonable expenses incurred in providing on-the-site supervision during development. In this connection, the following payments were noted:

	<u>Travel</u>	<u>Salary</u>	<u>Total</u>
For March through June 1949	\$3 30	\$1,377 39	\$1,380 69
For July and August 1949	3 74	900 18	903 92
	<u>\$7 04</u>	<u>\$2,277 57</u>	<u>\$2,284 61</u>

Chapter 200 - Project 200-4

Interest on Notes: It is the policy of the Authority to make monthly charges for interest due on temporary notes. Although the interest is not due until one year after date of notes, monthly pro-rated charges afford a means of allocating the expense to the de-

velopment fund account. A check of the interest account indicated that this policy had not been carried out to the date of audit; however, accrued interest to February 28, 1950 was charged to the development fund account while the audit was in progress.

Construction Contract: A charge of contract violation by the Boston Housing Authority against a building contractor was made during the early stages of construction on this project. In compliance with the contract, an agreement to submit to arbitration was signed on February 10, 1950. The arbitrator's decision was that the contractor did breach his contract and the amount to be credited on the contract price of the Boston Housing Authority contract as a consequence of the breach was \$60,000.00, subject to court approval.

BROCKTON HOUSING AUTHORITY

REPORT No. H-6

General - Minutes of Housing Authority: With the exception of only a few, formal minutes of the meetings of the local authority for the period prior to August 26, 1948 could not be located.

Minutes have been maintained for meetings from August 26, 1948 to the date of audit. It was noted that these minutes were not signed by a secretary or clerk.

Acceptance of the Chapter 372 Project: Occupancy of this project began on October 1, 1948 and on May 1, 1949, the project was entirely occupied.

As of the date of audit no annual subsidies had been received because the total construction cost had not been certified by the State Housing Board.

The registration of the various lots of land comprising the project is still in process. When this is completed, the local authority will request certification and acceptance by the State Housing Board.

Chapter 372 - Surety Bond: It is recommended that the clerk who handles the cash receipts from Chapter 372 units be bonded.

Chapter 372 - Deposits of Rent Receipts: It was noted on date of audit that rent receipts totaling \$65.00 were on hand. This amount represented partial payments of rent by two tenants.

These receipts had not been recorded on the cash book or the tenants' ledger.

It has been the custom to hold partial payments on hand until a full month's payment has accumulated to the credit of the tenant whereupon entries are made on the books and the money deposited.

In order to have both partial and full payments handled in the same manner, it is recommended that partial payments be recorded when received and the money deposited as soon as practicable.

Chapter 372 - Transfer of Surplus to City of Brockton: It was noted that the surplus for 1948 was overstated by \$360.00. However, an adjustment was made in 1949 so that the total surplus transferred to the City of Brockton for both the 1948 and 1949 years reconciles with the records.

Chapter 200 - Deposits on Plans: On the date of visit the executive director had custody of three certified checks for \$25.00 each, received in June 1949, representing deposits for plans and specifications.

While this audit was in progress, these checks were deposited.

It is recommended that, in the future, all similar deposits be credited to the appropriate account upon receipt and be deposited in the bank, as outlined in the instructions issued by the State Housing Board.

Chapter 200 - Errors in Estimates for Partial Payments: Because of errors in the computation of the periodical estimates for partial payment, there was an overpayment of \$70,800.00 to the contractor on December 31, 1949.

As a result of these errors, the "Materials Stored" account in the General Ledger showed a balance of \$130,424.00, whereas the value of the physical inventory on December 31, 1949 was \$59,624.00.

These errors continued through Periodical Estimate No. 6, dated January 31, 1950, at which time there was an accumulated overpayment of \$130,424.00.

As of January 31, 1950, there were contract retentions on hand amounting to \$50,450.00 and there was a balance of \$146,635.25 due to the contractor for work to be completed.

Proper adjustment of this overpayment should be made as soon as possible.

Chapter 200 - Development Costs: It was noted on date of audit that there was no control account for development costs in the General Ledger. This account is prescribed by the Manual of Accounting procedure issued by the State Housing Board and it is recommended that this account be set up in the General Ledger.

Chapter 200 - Bids on General Construction Award: The three lowest bids for the general contract and for the various sub-contracts were examined.

However, all of the bids were not located in the files as three of the higher bidders, as listed in the tabulation of bids submitted to the State Housing Board, had been returned to the bidders for some reason.

BROOKLINE HOUSING AUTHORITY

REPORT No. H-30

Maintenance Supplies and Materials: It is suggested that stock ledger cards be maintained for maintenance supplies and materials. All items lost or broken should be identified and reported to the office so that the stock ledger card will show the true inventory at all times.

Development Costs: It was noted that on date of audit there was no control account for development costs in the General Ledger. This account is prescribed by the Manual of Accounting Procedure issued by the State Housing Board and it is advised that this account be opened in the General Ledger.

Architectural and Engineering Account: Bid security deposits were entered through this account. As this is an incorrect posting it is recommended that in the future these items should be posted through the "Deposit on Plans" account.

General - Books of Accounts: This examination was initiated on May 8, 1950. At that time it was noted that the cash book and ledgers pertaining to the two projects had not been posted for the month of April 1950. It was also noted that the Petty Cash account is kept on the person of the Authority's Accountant. It was further noted that accounts' payable vouchers which were dated January 30, 1950 were not entered in the Cash Disbursement Book until the end of February. It is suggested that greater care be exercised in these matters.

Property Obtained by Eminent Domain: The Brookline Housing Authority with the approval of the State Housing Board tries to induce certain tenants to vacate by refunding their previous month's rent. They also have at times offered real estate brokers or agents \$100.00 to find each tenant a place to live. They will also allow each tenant up to \$250.00 for moving and storage expenses. These are in relation to tenants who do not qualify for the housing project.

CAMBRIDGE HOUSING AUTHORITY

REPORT No. H-9

General - Revolving Fund: This Revolving Fund is used to pay expenses which have to be pro-rated over the various projects, both State and Federal. This pro-ration is based on the percentage that the number of units in a given project bears to the total number of units of the Authority. A test was made of the invoices paid out of this Fund and it appears that in a number of instances, the State projects are being charged with expenses that are directly applicable to Federal projects. It is recommended that the State projects be charged with only its share of those expenses which can be attributed to them.

General - Furniture and Fixtures: It is the practice of this Authority to charge different items of office furniture and equipment in total to only one of the several projects. It is advised that these costs be pro-rated among the various projects, both State and Federal. Record cards should be kept showing the cost of this furniture and equipment with a breakdown of the amount charged to the different projects.

General - Issuance of Notes at a Premium: It was noted in two instances that notes of this Authority were issued at high premium and interest rates. It was noted that the premium offered brought the effective interest rate down so that it was the most favorable net interest bid.

General - Deposits on Plans and Specifications: It was noted on date of audit that deposits for plans and specifications in the amount of \$730.00 were being held in the office

of the Authority. This amount consisted of \$330.00 in currency and \$400.00 in checks. It was understood that this includes accounts of successful bidders totaling \$220.00. The remaining \$510.00 was deposited by unsuccessful bidders who have not yet returned these plans and specifications. The proper procedure for placing these deposits in a bank at the time the deposits are made and the procedure for handling deposits which have been forfeited, because the unsuccessful bidder has failed to return the plans and specifications to the Authority, are provided for in the manual issued by the State Housing Board. It is recommended that this account be handled in accordance with the procedure set forth in the future.

General - Insurance: It was noted on the date of audit that only the check signer and countercheck signer were bonded. The bookkeeper, clerk-typist and accountant who also handle cash were not bonded as required by the regulations issued by the State Housing Board.

The premium charge for the Boiler Insurance, the Burglary and Robbery and the Messenger and Interior Robbery have not yet been entered on the books. It is recommended that these entries be made. It is further suggested that the expired premiums on all policies be charged to expense.

General - Investments: In order to lower the net interest cost involved in the construction of a project, the State Housing Board has advised local housing authorities to invest excess funds in United States Treasury Bills. As it appears that this Authority has a certain amount of excess funds on hand, it is recommended that this directive be complied with, forthwith.

General - Financial Statements: It was noted that the financial statements of this authority as required by the State Housing Board have not been prepared or submitted recently. It is recommended that these statements be brought up to date and submitted, as required, to the State Housing Board.

General - Change Orders: In analyzing the Contract Award Accounts, it was noted that additions to and deductions from contracts because of Change Orders are not reflected in these accounts. It is recommended that all Change Orders be posted to the Contract Award Accounts as they are approved.

General - Expenditures: It was noted in several instances that the funds of one project are used to pay for expenses incurred by another project. The paying project is subsequently reimbursed by the project whose expenses were paid. Among these were noted the payment for washing machines for Project 200-1 in the amount of \$424.25 from the funds of Project 200-2. The payment for advertising for Title V in the amount of \$18.00 was made from funds of Project 200-1. On two occasions, expenses of Project 200-2 in the amount of \$683.32 were paid from the funds of Project 200-1. As previously stated, the appropriate funds are suitably reimbursed. The additional bookkeeping entailed is unwarranted. It is recommended that the funds of the project incurring the expense be used to make required payments.

Chapter 200-1 - Purchase of Washing Machines and Dryers: It was noted that 5 washing machines in the amount of \$845.00 and 3 dryers in the amount of \$693.00 with a ten cent coin attachment were purchased by the Authority and installed in the basements of this project for use by the tenants. The State Housing Board questions the justification of these purchases and asks who in the State Housing Board authorized these purchases. The Authority justified them by reason of the lack of adequate facilities for hand washing and room to hang clothes to dry. The State Housing Board has not as yet approved the transaction and apparently still considers it to be an improper expenditure from the Development Fund.

Chapter 200-1 - Income from Washing Machines and Dryers: The income from the washing machines and dryers installed by the Authority at this project is obtained through the use of coin meters, into which the tenant deposits 10¢ for the use of either a washing machine or a dryer. This money is collected at irregular intervals and deposited in the Harvard Trust Company in an account known as the "Washing Machine Account." On the date of audit there was \$146.60 on hand in the office belonging to this fund which was not deposited until several days later.

The meters on these machines do not record the total money deposited. They are only devices to set the machines in operation. The accountant employed by the Authority collects this money and it is suggested that stricter internal control should be exercised. This might be brought about by the installation of coin meters that record the amount of

money deposited.

The accounting for this money is made by a posting to a memorandum cash account in the general ledger. There is no offsetting posting made to any income account. It is recommended that an income account be set up and that the recording of this income be handled in accordance with the State Housing Board instructions for such income.

Chapter 200-2 - Cost of Blueprinting: It was noted in examining this account that the architect owes the Authority \$55.80 for six sets of plans, in accordance with his letter of August 8, 1949. The cost of printing these blueprints was paid by the Authority. It is suggested that an account receivable be set up to show the architect's liability to the Authority in this instance.

Chapter 200-3 - Elimination of 8 Units: The original contract for this project called for the construction of 68 units and the contract was awarded on this basis at the price of \$719,139.00, or approximately \$10,575.00 per unit. When the contractor was excavating in order to lay foundations, he ran into a soil condition that made it difficult to lay foundations for 8 units unless pile and caisson work was done. He quoted a price of \$28,794.51 for this extra work which would add approximately \$425.00 more per unit for the 68 units. In view of this, the Authority decided to eliminate these particular 8 units. The contractor offered to make the Authority an allowance of approximately \$39,000.00 because of this elimination. This added about \$800.00 per unit to the unit cost of the remaining 60 units. There has been much controversy among all concerned because of this allowance and it has not yet been settled. The Chairman of the State Housing Board has jurisdiction over such cases. The Authority believes it should be allowed in the vicinity of \$60,000.00 by the contractor. It is understood that the usual procedure, before drawing final plans showing where the buildings are to be located on the site, is to have borings made in order to determine that the land is suitable for the construction of the buildings. These borings were made and the company submitted a report in which they noted the fact that in certain boring tests they found the existence of fill.

In the architect's letter of September 17, 1949 to the Authority he stated, "I should like to point out that the borings which you obtained on the land are designated as filling, possible filling, and compact possible filling with no identification of the type of filling, except for the penetration as noted.

It did not arouse the attention of anyone else figuring the job or working on the preparation of plans, including the State Housing Board."

In the minutes of the Authority for October 30, 1949, it was stated that the "feeling of the Authority that the responsibility for the situation now requiring the use of piles and caissons was the responsibility of the Architect and Contractor."

The following is the chronological order of events showing the lapse of time between the time the boring report was received and the proceed order given to the contractor:

July 12, 1949	Advertisement for bids appeared in the Cambridge Chronicle
July 13, 1949	Advertisement for bids appeared in the paper of the construction company
July 21, 1949	Report on borings and test pits received from the testing company
August 3, 1949	Bids opened
August 18, 1949	Contract awarded and signed
August 24, 1949	Proceed order given to contractor
August 31, 1949	Letter of State Housing Board approving contract

Chapter 200-4 - Structures and Equipment: It was noted in examining this account that the amount of \$447.75 was for a calculator used in the Central office. It is recommended that this amount be transferred to the Furniture and Fixtures account.

Chapter 372 - Grant from City of Cambridge: The original grant from the City of Cambridge for the construction of seven pre-fabricated homes was in the amount of \$63,000.00. This amount was found to have been insufficient. At the date of audit, the Development Cost was \$33,150.22; incomplected contracts were \$60,556.80 and Change Orders were \$3,011.00, a total of \$96,718.02. To be added to these figures are the cost of ranges and refrigerators and the cost of the land. The Authority is preparing an amended application for funds which is to be submitted to the City and the State Housing Board. This application is being held up because the Authority and the City cannot reach an agreement on the price of the land which is owned by the City. The Authority has offered .09¢ per square foot and the City feels it should get 25¢ per square foot. Because

this amended application for funds has been held up, a resolution for the expenditure of \$3,011.00 for a Change Order in connection with additional work on the foundation for drainage purposes has not been passed by the State Housing Board. The work covered by this Change Order has been nearly completed, although the authorization for the expenditure has not yet been approved. This procedure is improper and it is advised that the Authority reach an agreement with the City as soon as possible in order that the State Housing Board may issue a resolution for the expenditure of funds in the amount contained in the new application, which will be approximately \$110,000.00.

Chapter 372 - Surplus Panels: The panels for the erection of the pre-fabricated homes were purchased from the Reconstruction Finance Corporation at a liquidation sale of the Anchorage Homes Corporation. In order to acquire these panels, the Authority was required to purchase the complete inventory of panels, which they did, paying the sum of \$23,000.00. At the time of purchase, it was understood by the Authority that these included seven complete homes and additional surplus panels which they contemplated using for garages for these homes. Upon taking a later inventory, it was determined that there were nine complete homes and some surplus panels.

The panels for the nine homes are stored at the project site on which there is land for only seven houses. The surplus panels, over and above the nine homes, are at Westfield, where the purchase originated. It was noted in the Authority's minutes of November 16, 1949, that the surplus panels were released to the City for disposal but no record of receipt from the sale could be found. It is recommended that proper accounts be set up to record the release or sale of these panels to the City in order that any money received by the City for them will reduce the Development Cost of these houses and similarly reduce the amount of the City's Grant to the Authority.

Chapter 372 - Development Costs: The original estimate of the Development Cost was \$63,000.00 or \$9,000.00 per unit. A revised estimate is being prepared and will be in the vicinity of \$110,000.00 or \$15,700.00 per unit. It was noted that this project has not been charged with its proper share of the Office Pay Roll and Expense, nor with its share of the Clerk of Works' salary. This project apparently does not require the services of an architect as these are pre-fabricated homes. The Clerk of Works supervising this project was formerly connected with the Anchorage Homes Corporation from whom the panels were purchased. His services were required to prepare the new estimated construction cost, yet his salary was not charged to the project. The Clerk of Works is also supervising the construction of a Chapter 200 Project. It was noted that his salary has been entirely charged to the Chapter 200 Project and that the Chapter 372 Project has not been properly charged with its proportionate share. It is recommended that this Project be charged with its share of all expenses in order that the true cost of this Project will be known.

Charges Made in Error: It was noted that the following charges have been made to the wrong accounts:

The cost of panels in the amount of \$18,400.00 was charged to the cost of Land Acquisition account and this would appear to be a proper charge to the Structure and Equipment account.

The cost of loading these panels on trucks for shipment to Cambridge and the cost of unloading them from the trucks at Cambridge in the amount of \$1,794.73 was charged to the Architectural and Engineering account and should have been an additional cost of Structure and Equipment.

The cost of transporting the panels from Westfield to Cambridge and the costs of renting and purchasing canvas to cover the panels while in storage in the amount of \$3,826.79 was charged to Carrying Charges during Development and should also have been an additional charge to Structure and Equipment.

Chapter 372 - Transfer of Charges to Chapter 200 Projects: The projects now known as Project 200-1 and Project 200-2 under Chapter 200 were originally started under Chapter 372 project and were transferred to Chapter 200. The present Project 200-2 now located at Rindge Avenue, was originally planned to be erected at Lakeview Avenue, the site of the present Chapter 372 Project. In connection with this transfer of costs from Chapter 372 to Project 200-2, the cost of the land at Lakeview Avenue in the amount of \$875.00 and the cost of Boring and Test Pits in the amount of \$185.77 were improperly transferred. It is recommended that these charges be transferred back to the Chapter 372 Project and Project 200-2 be reimbursed accordingly.

Chapter 372 - Contract Retentions: It was noted that a contract retention in the

amount of \$320.00 was posted to the Development Cost control account but not to the subsidiary Structure and Equipment account which thereby makes a variance between the control account and the trial balance of the subsidiary accounts.

It is recommended that this posting be corrected in order to reconcile the Development Cost control account and the trial balance of the Subsidiary Development Cost accounts.

Chapter 372 - Insurance During Construction: It was noted that the section requiring the contractor to carry the necessary insurance during construction was deleted from the specifications. Upon investigation it was determined that the contractor was not carrying the necessary insurance. It is recommended that the Authority require the contractor to carry the proper coverage and that proof of this insurance be obtained by the Authority in order that they will be fully protected.

CHELSEA HOUSING AUTHORITY

REPORT No. H-2

Project 200-1 General: The costs of this project, as of the date of this audit, had reached a point in excess of \$14,400.00 per unit and represented the highest unit cost of any housing project audited to date by this department.

Rental rates, as a result of these construction costs, are higher than those found in previous housing audits by this department; and yet, at the same time, they do not appear to be high enough to meet the future maintenance and amortization costs of the project.

A special commission created under Chapter 79, the Acts of 1948, to survey and study problems of veterans, including housing and hospital facilities, apparently recognized the particular problems of this project and recommended on page 17, item 4, of their report that:

".....a capital grant be made to the Chelsea Housing Authority in the amount of \$350,000 to compensate for the premium required by the speed necessary to solve their special housing problem since this problem arose as a result of earlier action by the State."

While this recommendation was included in the special commission's report, no legislation was filed by the commission to further its recommendation.

The propriety of this commission's recommendation is further emphasized by the following letter taken from the files of the Chelsea Housing Authority, which clearly proves that the Chelsea Housing Authority has nothing to do with the erection of this project, since all duties of that Authority were taken over by the State Housing Board.

Mr. M. George Tigar, Chairman
Chelsea Housing Authority
521 Washington Avenue
Chelsea, Massachusetts

Dear Mr. Tigar:

Pursuant to the conference and cooperate agreement in the Governor's office last Friday, the 24th of September, 1948, between the Governor, the City of Chelsea, the Chelsea Housing Authority, the Mystic Bridge Authority, the Greiner Company, the State Housing Board and others, and the conversation between you and me at the end of that conference, I am stating my understanding of the part that the Office of the Chairman, State Housing Board, will play. It is particularly understood that any service beyond the maximum that we can render to any housing authority is to be kept in the strictest confidence.

In essence, the Chelsea Housing Authority has delegated to the Office of the Chairman, State Housing Board, the functions of development and management, including construction, for the production of at least seventy, and possibly two hundred garden apartment dwelling units in Chelsea. The seventy dwelling units are to be planned and built, ready for occupancy, if possible, January 1, 1949. Upon completion of the dwelling units, the Office of the Chairman, State Housing Board, will resume its normal relations with the Chelsea Housing Authority.

We have already implemented the program, although we lack written authority from your Authority, and are proceeding according to the agreements made at the Governor's office. We intend to consult with you as

frequently as possible so that the design and construction of the project will meet with your wholehearted approval. We will require the prompt cooperation of your Authority in expediting functions which, by law, can only be made effective by you, though they will in fact be performed by us.

Specifically, it is our understanding that this office will do the following:

1. Select an architect and prepare the form of architect's contract for your execution.
2. Decide upon the part of the site to be used.
3. Secure site topographical and boring date.
4. Prepare the financing documents.
5. Engage personnel, on your behalf, and supervise their work.
6. Supervise construction.

The expenses incurred will, of course, be charged against your development cost and all contracts will be signed by you as Chairman of the Chelsea Housing Authority.

Mr. of this office, has been assigned full time, to this Chelsea project and will act as your Executive Director until occupancy. He will, of course, be responsible primarily to this office and his services will not be charged against the development cost.

With my respects to yourself and each member of the Chelsea Housing Authority for your cooperation, service and self-sacrifice, I am,

Cordially yours,

A. S. BIGELOW, Chairman

It is recommended that the General Court make a capital grant to this project in a sum sufficient to reduce the current rentals to a scale commensurate with the quality of housing provided.

General - Petty Cash Fund: It was noted that, with few exceptions, the vouchers supporting the disbursement of petty cash items were not signed by the recipient of the cash. The value of petty cash vouchers without a signature is questioned.

Balance Sheet - Project 200-1: Both the Development Fund and the Administration Fund reflect incorrect balances as of the date of audit. Many discrepancies in the balance sheet were noted and included the following:

1. An amount of \$2,667.94 should have been transferred from Development Cost Account to Operation Expense Account instead of \$2,665.14, a difference of \$2.80.

2. No allowance was made for the withholding tax liability and the money was left in the Development Fund. When payment was made on these taxes to the Collector of Internal Revenue, the check was drawn on the Administration Fund instead of the Development Fund. The amount of the Tax was \$76.80.

3. There is a balance of \$700.00 in the Development Fund which represents Tenants' Security deposits. This amount should be in the Administration Fund. It was also noted that there was \$10.00 in cash on hand, representing a Security Deposit made by a tenant on November 22, 1949. There is no entry made for this amount, so this deposit is not reflected in the balance sheet.

4. Of the Tenants' Accounts Receivable balances, it was determined that \$252.00 was considered worthless due to loss of rent owed by a former tenant. It was understood that while the Authority has taken all legal steps to collect this account, the whereabouts of this former tenant is unknown. It was also noted that \$9.20 will have to be written off representing a charge made in error for six days rent in October for a vacant apartment.

5. The balance sheet, reflects a Development Petty Cash Fund balance even though the cash has been completely expended. This leaves Development Costs Account understated by the amount of this Fund.

6. The account - Accounts Receivable - City of Chelsea - represents an amount that was paid, under protest, by the local Authority to the City of Chelsea for electricians' permits. The then Mayor of Chelsea

had originally agreed with the Authority to issue permits without fees being charged, but the Board of Aldermen did not approve of this agreement. The matter of refunding the money to the Housing Authority was discussed by the Board of Aldermen at a recent meeting, but no decision was reached at that time.

7. The account, Prepaid Insurance, as reflected in the balance sheet, is incorrect to the extent that approximately \$2,800.00 of the insurance charged had expired and should be charged to an expense. As this insurance is for fire coverage on the dwelling, it is suggested that the cost of this insurance should be charged to administration rather than to the Development Account.

8. Included in the Land, Buildings, etc., Account, there is a credit of \$2,800.00 received from the Boston Edison Company as a range wiring allowance. The Edison Company paid an amount of \$40.00 for each electric range installed of over 5 K. W. capacity and having a thermostatically controlled oven.

9. It was noted that both the Land, Building, etc., and Contract Retention accounts were understated by \$2,500.00. The cause of the understatement was due to a payment made to a contractor for which there was no retention posted. This retention represents an amount withheld for landscaping work which will be completed in the spring of 1950.

Insurance: The insurance policies were not in the office when they were requested in connection with this examination. After approximately two weeks, a number of policies were presented for examination, of which three were still in effect. The policies were examined and in this connection the following was noticed:

1. There is no surety bond on any of the officers of the Authority, nor is there any entry in the books which might suggest that there is a bond of this nature now in effect. The records indicate that a Position Schedule Bond for \$100,000.00 was in effect to December 9, 1949, but apparently it was not renewed. The records of the Authority do not include all the necessary information relative to these bondings and it was necessary to visit the State Housing Board in Boston to determine the amounts of the bonds in effect, etc.

2. There appears to be no Workmen's Compensation Insurance effect on a maintenance employee working on the 200-1 project, although there is a Workmen's Compensation policy covering the Federal project and the office employees. It is advised that these employees should be covered.

3. There is a Money and Securities Policy (Broad Form) of the National Surety Corporation of New York in effect which apparently expires April 11, 1950. This protects against direct loss of money and securities occurring on the premises, occasioned by actual destruction, disappearance or wrongful abstraction, and also for the direct loss outside the premises while being conveyed by a messenger. The amount of coverage is \$2,000.00 within and \$2,000.00 outside the premises. The premium is not charged to the 200-1 project and probably was paid by the Federal project. It would seem that this charge should have been prorated.

4. The State Housing Board has directed this Authority that the Public Liability on Vacant Land policy should be canceled when all the units are occupied. It was noted that policy #GL224463 dated November 17, 1949 to expire November 17, 1950, is a policy covering certain liability on vacant land. This is therefore obviously a coverage of the vacant land to be used for the 200-2 project and, therefore, should be charged to it. It was further noticed that no charge was made anywhere for this policy nor does there appear to be an unpaid invoice on hand.

Eminent Domain - Legal Services - Fees: Project Number 200-2 is to be located on the land taken in connection with the earlier 200-1 project. It is understood that the costs between the two projects will be apportioned at a later date.

1. A fee of \$60.00 per parcel was paid to an attorney for furnishing title abstracts and other services in connection with passing of titles on real estate acquired. As 39 abstracts were required it was necessary

to expend \$2,340.00 for this purpose. This expenditure was approved by the State Housing Board in their letter of January 27, 1950. This amount is to be prorated to the two projects, 200-1 and 200-2.

2. An attorney, who at the same time is employed by the City of Chelsea in the Assessing Department in the capacity of Title Clerk, has been paid or is to be paid the following fees including the foregoing which were authorized by the State Housing Board:

Legal Services for Project 200-1	\$3,500 00	
Legal Services for Project 200-2	5,000 00	
Land Title Work for both projects	2,340 00	
Total Legal Fees		<u>\$10,840 00</u>

Architectural Services on Change Orders: Schedule No. VIII indicates that the total authorized change orders on project 200-1 totaled \$76,677.81. In this respect it was noted that the architect has charged fees to the Authority on the basis of \$73,153.73 of these extras. The charges for these extras were apparently based on the authority of the following letter from the State Housing Board:

THE COMMONWEALTH OF MASSACHUSETTS
STATE HOUSING BOARD
18 TREMONT STREET, BOSTON 8

Office of the Chairman

April 29, 1949

Philip S. Jackson, Executive Director
Chelsea Housing Authority
Room 303, City Hall
Chelsea, Massachusetts

Dear Mr. Jackson:

This is in answer to your inquiry regarding inclusion of the cost of extras in the sum upon which the architect's fee is based. You are authorized to include the cost within such sum.

Very truly yours,
HAROLD ROBINSON
Director

The practice of paying the architect for these services is questioned, particularly in view of the fact that the services performed by him or his staff in connection therewith, apparently do not involve much, if any, additional drafting.

In this connection a later directive from the State Board of Housing is shown:

December 13, 1949

Architect's Contract

There has been some confusion regarding payment to architects for work done during construction. The question has been raised as to whether the architectural fee is based upon the construction awarded or the construction award plus extras. The purpose of this memorandum is to clarify that question.

The Contract for Architectural Services specifically provides that the figures against which one applies the table of percentages is the bona fide construction bid. That figure is not to be increased by the cost of any extras or change orders. Compensation for changes in plans after an award, is taken care of by Article II, Part III of the Contract for Architectural Services. Where change orders or proceed orders are prepared which do not involve additional drafting, there will be no compensation paid to the architect.

HR:rmc

/s/ HAROLD ROBINSON
Director

Payments from Administration Fund - Project 200-1: In vouching check payments from this fund certain invoices for services, etc., were noticed the propriety of which is questioned. Included among them were the following, which are shown only for the purpose of illustration:

1. Invoice of Belco Construction Company for inspection of roofs for leakage \$350 00
This amount was charged to the Administration Fund and seems to be a correct charge to the contractor. (Development Fund).
2. For wiring a light fixture 3 81
This project was guaranteed for a year.
3. Parkway Pest Control 135 00
The minutes of the Board indicate that this contract was for \$50.00. The authorization for paying \$135.00 was signed by a member of the Board
4. Service calls on oil burner 8 50
This service should have come under the guaranty.
5. Construction Company 58 80
This pipe was laid by this contractor and it appears he should be charged. There is no authorization for payment, but payment has been made nevertheless.
6. Electric Company 4 00
Electric work done at Building 1, Apt. 2
This work should have been performed under the guaranty.

Bids and Specifications Report - Project 200-2: It was noted that deposits on plans and specifications in the amount of \$2,200.00 were being held in the office. Of this amount \$100.00 was in currency. It is advised that these deposits should be handled in accordance with the procedure outlined in the Manual of Instructions issued by the State Housing Board.

DEDHAM HOUSING AUTHORITY

REPORT No. H-5

Housing Authority Office - Participating Contractors' Contributions: In one of the cellars of the project, the various contractors have furnished all necessary labor and materials, such as, paneling, flooring, light fixtures, etc., as their voluntary contribution to provide an adequate office for the Authority.

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to various State and municipal officials. No report had been made to date of audit by this Authority. This matter was discussed with the Executive Director, and it was understood that he will take steps to prepare this report.

Dwelling Rent Charges: Attention is called to the following schedule showing a detail of the rental rates per unit in the project constructed and operated by this Authority:

No. of Units	Rate						Total
	\$24.00	\$26.50	\$29.00	\$31.50	\$34.50	\$37.00	
1	1						\$ 24 00
15		15					397 50
1			1				29 00
30				30			945 00
8					8		276 00
25						25	925 00
80	1	15	1	30	8	25	\$2,596 50

These are the lowest rates for rents noted by this office of any authority audited thus far, and they are apparently adequate to meet the costs of the project. It was understood from an official of the Authority that he has corresponded with various public housing authorities throughout the country, and to date has found none with as low rents as noted here for this type of project.

Fire Insurance: The fire insurance was charged in error to the Development Fund. It was noted that the Prepaid Insurance is still at the full payment price, although four months had elapsed at date of audit. This is due to the fact that they cannot write off as expense any part of it until it is transferred to the Administration Fund. Their accountant

will remedy this situation in the near future.

EASTHAMPTON HOUSING AUTHORITY

REPORT No. H-48

Rent Receipts: It is recommended that the Authority use serially numbered printed rent receipts, in order to facilitate the control of income derived from rents.

Architects Fees: The Easthampton Housing Authority has paid to the architect the sum of \$8,566.17, which represents a partial payment of 70% of the total fee computed by the architect of \$12,237.37, based on Tables I, II and III of the schedule of architects fees. The computation by the architect based on Tables I, II and III is as follows:

Part	Cost	Fee Table	Percentage From Fee Table	Total Fee
(1) Construction	\$202,167 45	I	5.32%	\$10,755 30
(2) Site	13,150 00	II	7.5 %	986 25
(3) Planting	4,132 00	III	12.00%	495 84
	<u>\$219,449 45</u>			<u>\$12,237 39</u>

This bill submitted by the architect is apparently in error. The fee for construction was computed on Table I, which pertains to two story row houses and/or flats of not less than four family units in a single building. The projects however consist of 22 houses of one family units. The fee for all three parts was not computed on a ratio of the actual construction bid to estimated cost.

The architects fees based on the proper Tables II, III and IV should have been as follows:

Part	Cost	Fee Table	Percentage From Fee Table	Total Fee
(1) Construction	\$197,096 50	IV	10% of construc- tion for 2 units Plus \$100.00 each for 18 units Plus \$50.00 each for 2 units	\$1,791 80 1,800 00 100 00 \$3,691 80
(2) Site	17,298 67	II	7.5 %	1,297 40
(3) Planting	5,053 78	III	12.00%	606 45
	<u>\$219,449 95</u>			<u>\$5,595 65</u>

From the foregoing two schedules it appears that the authority has overpaid the architect to date in the amount of \$4,649.21.

This situation was discussed with the Director of the State Housing Board and he indicated that the fee for architectural services should have been based on Table II, III, and IV. He also states that the architect had done considerable work in designing row type houses which were not accepted by the authority. It was his opinion that the architect should be compensated for this work.

It is recommended that future payments to the architect be suspended until the local authority, the Chairman of the State Housing Board and the architect can agree upon a corrected contract for architectural services.

Development Cost: It was estimated by the members of this Housing Authority that the final development cost of the project will exceed the maximum development cost in the contract for financial assistance. It is recommended that the local authority take the necessary steps to reduce the scope of the project in a manner satisfactory to the Chairman of the State Housing Board so that the actual development cost will not exceed the maximum development cost.

EVERETT HOUSING AUTHORITY

REPORT No. H-15

Books of Account Kept by Private Accountant: This audit was started on March 13,

1950. At that time it was found that the books of account have not been posted since January 31, 1950. The books of the Authority are posted and financial statements are prepared by a private accountant who visits the Authority's offices periodically. It was necessary for an employee of the Authority to call the accountant and have him bring the books of account up to date.

Certificate of Purposes and Statement of Cash Requirements: It was noted while preparing a comparative statement of estimated and actual development costs that in spite of the fact that the contract for financial assistance had been amended from \$2,941,000.00 to \$3,035,000.00 on June 6, 1949 this Certificate of Purposes had not been executed as of date of audit, March 13, 1950.

Contract for Architectural Services: It was noted in computing the architect's fee based upon the actual construction cost, that the fee estimated by the architect was overstated by \$2,295.23. It is suggested that before final payment is made to the architect, this matter be taken up with the State Housing Board for review and subsequent approval.

Investments: In this connection it was noted on date of audit that there was a cash balance in the development fund of \$612,024.43. It is recommended that such excess funds be invested in United States Treasury Bills, as suggested in the State Housing Board memorandum of September 16, 1949.

Contracts and Change Orders Affecting Contracts Not Posted to General Ledger Account - Contract Awards: It was noted on date of audit, that the balance of this account per the books was \$582,527.76. An analysis of this account showed that the actual balance was \$674,718.12, a difference of \$92,190.36. This amount represents the contract for painting, \$77,500.00, the contract for gas ranges, \$11,510.60, and approved change orders in the amount of \$3,179.76. As a result of the failure to post the contracts and the change orders when they were approved, the liability of the Housing Authority on the uncompleted portion of the development cost contract has been understated in the monthly balance sheet as submitted to the State Housing Board, as follows:

Month		Reported	Actual	Liability Understated
August	1949	\$2,068,939 90	\$2,145,466 46	\$ 76,526 56
September	1949	1,631,704 24	1,730,582 08	98,877 84
October	1949	1,357,945 30	1,456,823 14	98,877 84
November	1949	1,107,114 13	1,220,699 67	113,585 54
December	1949	934,846 83	985,068 37	50,221 54
January	1950	750,241 65	824,908 94	74,667 29
February	1950	582,527 76	674,718 12	92,190 36

It was further noted in this connection that a journal entry was made on December 31, 1949 for contract change orders in the amount of \$65,988.95. Of this, \$28,930.70 represents change orders that had not been approved by the State Housing Board.

It is suggested that the account be adjusted to show the actual liability of the Authority.

Rent Receipts: In connection with the rent receipts on hand it was noted that they were not numbered. It is advised that these receipts should have been numbered by the printer.

Unearned Discount: It was noted that the unearned discount on United States Treasury Bills was credited to the Development Cost Account - Interest in Development at the time of investment. This resulted in the Investment Account being overstated and the Development Costs were accordingly understated. It is recommended that the Unearned Discount be handled in the manner prescribed in the Manual of Accounting Procedure of the State Housing Board.

Insurance on Furniture: In examining the insurance carried by the Authority, it was noted that there was no fire insurance carried on the furniture and fixtures in the Authority's office. In view of the fact that furniture and fixtures in the office are valued at \$3,101.37, it is recommended that adequate fire insurance be provided.

Overpayment to Collector of Internal Revenue - Account of Withheld Taxes: It was noted that on January 10, 1950 a disbursement was made in the amount of \$628.60 to the

Collector of Internal Revenue. This amount was supposed to represent the taxes withheld from employees for the quarter ending December 31, 1949. An examination of this account showed that the liability of the Authority in this report on December 31, 1949 was only \$583.70, a variance of \$44.90. It is recommended that steps be taken to correct the situation.

Miscellaneous Income: On December 30, 1949 the Everett Housing Authority acquired title to land known as the Coburn Estate. Prior to the acquisition of this land the city rented the land at the following rentals.

- A. \$35.00 per year
- B. 15.00 per year
- C. 15.00 per month

The annual rent paid by "A" was received by the City of Everett in 1949.

Negotiations are being carried on with "B" to rent their land at \$50.00 a month on a license basis. This will enable the Authority if necessary to have "B" vacate with only 15 days notice. While the audit was in progress two checks for \$15.00 each were received by the Housing Authority. These have not been deposited as a tenancy would have been created.

There has not been any action in the matter of "C." Apparently the owner is not operating the concession, although he has available a small building with his equipment, etc., on the site. It is suggested that the Housing Authority take action on this matter so that all possible income can be derived from the property.

FALL RIVER HOUSING AUTHORITY

REPORT No. H-17

General - Joint Expenses of the Several Projects: Expenses for pay roll and certain miscellaneous expenses which are chargeable to two or more projects are paid from the bank account of the Federally-Aided project.

Whenever possible these expenses are charged on the basis of applicability. Where such distribution is not proper, an allocation is made on the basis of the number of units.

At the end of each month the several projects reimburse the Federally-Aided project for their proper share of the expenses.

In order to provide sufficient cash to meet these items, the various projects advance money which is deposited in the bank account of the Federally-Aided project. These advances are carried as Accounts Payable - Sundry on the books of the Federally-Aided project, and as Accounts Receivable - Sundry on the books of the project advancing the money.

As of February 28, 1950, Projects 200-1 and 200-2 had advanced \$1,000.00 each.

Chapter 372 - Rent Due: It was noted that on the date of audit a total of \$2,624.85 was due to the Fall River Housing Authority from present and former tenants.

It was determined that necessary steps were being taken to make collections on those accounts included with the foregoing which are in a delinquent status.

Chapter 200-Project-1 - Contract for Financial Assistance: The certificate of purposes and statement of cash requirements has been revised from \$1,600,000.00 to \$1,450,000.00 because the number of dwelling units to be built under this project was reduced from 149 to 131.

As of the date of audit, the revised contract for financial assistance had not been received by the Local Authority from the State Housing Board.

Chapter 200 - Project-1 - Investments in United States Securities: It was noted that the investments in United States Securities are being carried at their cost of \$1,099,521.32. The maturity value of these investments, however, is \$1,102,810.00.

The manual of instructions of the State Housing Board prescribes that interest to be realized on investments should be set up as a liability at the time of investment and that the investment should be carried at maturity value.

Chapter 200 - Project-2 - Occupancy: On the date of audit, this project was in the construction stage. During the course of the audit, 50% occupancy was achieved.

Chapter 200 - Project-2 - Investments in United States Securities: It was noted that investments in United States Securities are being carried at their cost value of \$300,000.00. The maturity value of these investments, however, is \$303,375.00.

The manual of instructions of the State Housing Board prescribes that interest to be realized on investments should be set up as a liability at the time of investment, and that the investment should be carried at maturity value.

Chapter 200 - Project-2 - Advances to Project 200-3: It was noted that payments had been made on account of preliminary expenses of Project 200-3 in the amount of \$898.86 as of the date of the audit. Additional payments were made in March 1950 so that total payments of \$2,213.87 were made. These payments had been made out of Project 200-2 funds, and the \$2,213.87 was being carried on the books of Project 200-2 as an account receivable from Project 200-3. When it was called to the attention of the local Authority that such payments were contrary to the Development Fund agreements of Project 200-2, the local Authority reimbursed Project 200-2 in the amount of \$2,213.87 from a fund established by advances received from the City of Fall River.

This latter fund, called the Local Fund, it is understood is recorded on the records of the Federally-Aided projects.

Chapter 200 - Project-2 - Deposits for Contract Performance: It was noted that there were two certified checks totaling \$899.62 in the office on the date of audit. These checks had been received as guarantees on a contract and are subject to refund upon satisfactory completion of the contract.

The receipt of these checks had not been reflected on the books of account.

It is recommended that all deposits be credited to the appropriate account upon receipt and be deposited in a bank account in conformance with instructions received from the State Housing Board.

Chapter 200 - Project-3 - Deposits on Plans: It was noted that there were eight checks totaling \$400.00 in the office on the date of audit. These checks had been received as deposits for plans and specifications and are subject to refund upon their return to the local Authority.

The receipt of these deposits had not been reflected on the books of account.

It is again recommended that all deposits be credited to the appropriate account upon receipt and be deposited in a bank account in conformance with instructions from the State Housing Board.

Chapter 200 - Project-3 - Accounts Payable: As of February 28, 1950 payments amounting to \$1,398.86 had been made on account of preliminary expenses of Project 200-3. Of this amount, \$500.00 had been paid from the Local Fund advanced by the City of Fall River, and \$898.86 had been paid from funds of Project 200-2.

As yet, no books of account for Project 200-3 have been set up in which to record these items.

FALMOUTH HOUSING AUTHORITY

REPORT No. H-58

Bonds: It was noted that there were no fidelity bonds for employees in effect as of the date of audit. While the audit was in progress steps were taken to place these employees under the blanket bond set up by the State Housing Board.

Deposits During Development: It was noted that there was a certified check in the amount of \$500.00 in the office of the Authority on the opening date of the audit. This check had been received as collateral on a contract and is subject to refund, upon satisfactory completion of necessary work. This transaction, however, was not reflected on the books of this Authority.

It is recommended that all deposits be credited to the appropriate account upon receipt. They should also be deposited in a bank account in conformance with the instructions of the State Housing Board.

Change Orders: Change orders totaling \$2,044.00 had been entered on the books to the date of audit. It was noted, however, that the total of the approved change orders as of the date of audit, amounted to only \$1,100.00.

Approvals for the change orders for the remaining \$944.00 could not be located.

FRAMINGHAM HOUSING AUTHORITY

REPORT No. H-16

General - Books of Account of Authority Kept by Executive Director: The books of account of the Chapter 372 project and the Appropriated Fund are maintained by the Executive Director. It was noted on the date of the audit that these books were not posted

currently. It was noted that the only books of record kept on the construction account were the cash receipts and disbursements. It appears that with the other duties of the Executive Director, he is unable to devote the necessary time to keep these records posted currently.

General - Chapter 372: Transactions of this project were checked only for the period from August 9, 1949 to date of audit, since prior to this date the examination was made by the Division of Accounts in the State Department of Corporations and Taxation.

Chapter 372 - Adjustment of Funds from Operating Account to Construction Account: The State Housing Board notified this Authority that an insurance adjustment between the operating and Construction accounts for \$319.77 was necessary. This adjustment would increase the cash balance of the Construction Account and correspondingly decrease the development costs. To the date of audit, the adjustment had not been made.

Chapter 372 - Rent Receipt Books: The rent receipt books are not kept in numerical sequence and the same series of numbered books are used for both State and Federal projects. It was suggested that a different series be obtained for these two types of projects and that separate controls be maintained.

Chapter 372 - Tenants' Security Deposits: It was noted that a \$10.00 security deposit was still on hand for a former tenant who moved, owing rent of \$128.00. It is advised that this deposit be used to reduce this obligation.

Chapter 372 - Rent Due: It was noted on the date of audit per tenants' ledger that \$877.00 was due this Authority from present and former tenants for rent. The Tenants' Accounts Receivable Account showed a balance, however, of \$923.00. This difference was caused by recording a February 1950 rent receipt of \$46.00 in March 1950, in the Cash Receipts Book.

Chapter 372 - Reserve for Tenants' Accounts Receivable Account: There is a balance in this account of \$917.81 which represented the balance of tenants' accounts receivable due on January 31, 1950. As no adjustments are being made through this account, the balance is unnecessary; therefore, it is suggested that it be eliminated.

Chapter 200-1 - Employment of Personnel: Authorization for the employment of part-time clerical personnel could not be found recorded in the minutes of the Authority's meetings.

FRANKLIN HOUSING AUTHORITY

REPORT No. H-53

General - Journal Entries: It was noted that there were journal entries made for investment cash transactions. It is suggested that all cash transactions should be made through the cash book.

General - Administrative Funds Charged for Development Expenses: It was noted that the following items were charged to the Administrative Fund Expense:

Three Large Burners	\$ 24 00 Operating Services
Liability Insurance	63 56 General Expenses
Advance Water Charge Services	140 00 Utilities

It would appear that the foregoing should be adjusted from the Administrative Fund and charged to the Development Fund.

General - Change Orders: Change order numbers 2, 4, and 5 were not available for examination. A copy of all change orders should be kept in the files. It was also noted that change order number 5 was not approved by the State Housing Board at the date of audit but was already posted in the books. Change orders should not be recorded until they have been properly authorized.

GLOUCESTER HOUSING AUTHORITY

REPORT No. H-10

General - Books of Account: Transactions of this Authority are recorded by both the Housing Manager and a private accountant. The Housing Manager records check dis-

bursements and cash receipts and also posts to the Tenants' Accounts Receivable ledger. The duties of the private accountant who visits the office monthly include the following:

1. Sets up Tenants' Accounts Receivable from the rent roll.
2. Posts transactions to the general ledger from all books of original entry.
3. Journalizes all entries in the general journal.
4. Prepares Balance Sheets and a comparative report of development costs which are required by the State Housing Board every month.

In this connection several bookkeeping errors were noted in connection with the current examination. These included items of the following nature:

1. When certain investments were sold and reinvested in other securities, the only entry made was for the interest earned. The entry should have also indicated the complete record of the sale and repurchase.
2. A net credit to the rent account is set up each month rather than a gross credit. Because of the method employed, vacancies as they occur are not specifically shown. The arrangement presently used is not in conformance with the Accounting Manual of the State Housing Board.
3. Certain expense items are all grouped in one general ledger account. These include items which should properly be posted to accounts such as:

<u>Account No.</u>	<u>Name</u>
4100	Management
4200	Operating Services
4300	Dwelling and Commercial Utilities
4400	Repairs, Maintenance, and Replacements
4700	General Expenses

The arrangement suggested is in conformance with the instructions in the Accounting Manual of the State Housing Board.

4. In January 1950, two bank balances, as follows, were transferred to the Second National Bank of Boston for deposit:

Cape Ann National Bank	\$ 50,107 87
Gloucester Safe Deposit and Trust Company	50,107 20
	<u>\$100,215 07</u>

When this entry was recorded on the record, it was treated as \$100,000.00 received from investments and \$215.07 as interest received. Actually, however, this amount included originally only \$80,000.00 as investments and \$125.27 of interest. The remainder of \$20,089.80 represented the actual cash balances in the two Gloucester banks before the receipts from the investment.

5. On August 15, 1949, the first series of temporary notes became payable. The records, however, only include interest accrued on these notes to August 1, 1949 instead of to the 15th, as was actually paid.
6. It was noted that a tenant vacated his apartment and his security deposit was returned to him. The entry for this refund was passed through the Expense Account rather than through the Security Deposit Account.

Chapter 372 - Remodelling Temporary Units: Leases for these units were examined and tabulated. The Authority has fifteen units under this type of housing. The City of Gloucester owns four of these units and private landlords own the remaining eleven units. According to the following provision of the leases, the owners agreed to insure the

property in an amount equal to the investment by the city: "The owners agree with said City to keep the new construction provided for in this agreement adequately insured against loss by fire in an amount satisfactory to the Municipal Council of said City, but in no event in an amount less than the amount of the City's contribution to said remodelling and said policy of insurance is to provide in substance that the loss, if any, shall be made payable to said city at all times during the life of this agreement and lease as its interest may appear."

Despite this provision, with the exception of one, all lessors concerned, failed to comply with it. This apparently was done on the basis of the following vote of the City of Gloucester Municipal Council:

In Municipal Council
February 11, 1949

INSURANCE ON REMODELLING PROJECTS

The Council reconvened after holding a conference with the Gloucester Housing Authority on the matter of the lack of adequate insurance on the remodelling jobs and the attitude of certain banks relative to the leases on the properties mortgaged at those banks. On motion of Alderman O'Connell it was voted to authorize the Gloucester Housing Authority to place such fire insurance on all the remodelling projects as would cover the City's financial interest in those projects, and that the provisions of the agreements and leases be called to the attention of the owners of the properties that those provisions relative to fire insurance be carried out. The meeting was adjourned at 9:15 p. m.

Attest:

s/ Carlton W. Wonson

Clerk pro tem

It is understood that to date no action has been commenced against the lessors, even though the aforementioned vote indicates that the provision of the agreements should be called to the attention of the owners of the properties concerned.

Project 200 - 1 - Additional Units: As an additional 40 units are to be constructed on the same site as the original 120 units, an amended contract for financial assistance has been made. The amount shown on the Balance Sheet as Notes Authorized will be increased to \$1,828,000.00 because of this consolidation.

Project 200 - 1 - Date of Occupancy: It has been estimated by the local authority that the original 120 units will probably be occupied on or about May 1, 1950.

Project 200 - 1 - Architect's Services: It was still impossible to determine the actual amount for Architect's Services for general construction, including basic services for normal structural plumbing and electrical engineering services, and general supervision because the different type of construction employed pose a problem.

It has been definitely determined that both fees for site, engineering and landscaping are not computed in accordance with provisions of the Architect's Contract. The provision states that, "The cost of the construction work on which such fees shall be based shall be that percentage of the lowest bid made in good faith for the construction of the project which the estimated cost of site and planting work bears to the Total Estimated Project Cost as approved by the Authority." The architect used the straight estimated figure in his computation of the fee. According to information received at the State Housing Board and from members of the local housing authority, these fees will have to be refigured and adjusted and a settlement made accordingly.

Special Account: This account represents money granted to the Housing Authority by the City of Gloucester to meet special or unusual items and preliminary expenses in developing a new project. Transactions in this account were audited from July 14, 1948 to January 31, 1950. The original appropriation was \$1,100.00. Expenditures from this account were for small bonuses to employees at Christmas; repairs not authorized to be taken from other project funds, etc.

April 30, 1950. All transactions prior to March 1, 1949 had been examined by the Division of Accounts in the State Department of Corporations and Taxation.

Chapter 200 - Investments: The Greenfield Housing Authority failed to reduce the net cost of interest during development because it did not invest its surplus funds in United States Treasury Bills as recommended by the State Housing Board. The Authority averaged \$150,000.00 in uninvested cash during the period under examination.

HOLYOKE HOUSING AUTHORITY

REPORT No. H-24

Federal Projects: The financial records of the Federal projects Mass. 5-1 and Mass. 5-2 were not examined. This Authority has title to these projects. It has financed these projects through its own bonds and receives a subsidy from the Federal Government under Public Law 671 and Public Law 412. By virtue of the subsidy from the Federal Government, these projects are subject to audit by Federal auditors.

Chapter 372: Transactions in the construction and the management accounts were examined only for the period from July 1, 1949 to March 31, 1950. All transactions prior to July 1, 1949 had been examined by the Division of Accounts in the State Department of Corporations and Taxation.

Chapter 372 - Reserves: Section 8C of Chapter 372 of the Acts of 1946, as amended, states as follows:

"Whenever a housing authority has received money appropriated by a city or town for the development and construction of a project for providing shelter for veterans under paragraph (3) of section six and has constructed such a project and rental dwelling units therein to veterans, it shall repay to the city annually the excess, if any, of the receipts derived from said property over the expenses for the operation and maintenance thereof, including in such expenses a reasonable allowance for reserves for repairs, maintenance and replacements not exceeding ten per cent of the gross rents of the first year's occupancy and for vacancy and collection losses not exceeding three per cent of such gross rents."

The financial records of the Holyoke Housing Authority as of March 31, 1950, in this respect indicate reserves set up in the total amount of \$9,571.38. Of this amount \$1,125.92 is for vacancy and collection losses and \$8,445.46 is for repairs, maintenance and replacements. An analysis of the account indicates that in conformance with the aforementioned statute, only the following reserves should have been established:

Gross Rent First Year	Reserve For Repairs, Maintenance and Replacements	Reserve For Vacancy and Collection	Total Reserves
\$31,680 00	10% of 1 - \$3,168 00		\$3,168 00
31,680 00		3% of 1 - \$950 40	950 40
Total Reserves to be set up under Chapter 372	\$3,168 00	\$ 950 40	\$4,118 40
Reserves set up on financial records	8,445 46	1,125 92	9,571 38
Excessive Reserves	<u>\$5,277 46</u>	<u>\$175 52</u>	<u>\$5,452 98</u>

It is suggested that the reserves indicated above be adjusted to comply with the provisions of Section 8C of said Chapter 372.

Chapter 372 - Operating Budget: The Holyoke Housing Authority has not prepared or submitted to the State Housing Board operating budgets for the fiscal years 1949 and 1950. In compliance with Section IV of the instructions issued by the State Housing Board, dated October 1, 1948, it is indicated that an operating budget is prepared at least 60 days before the start of the fiscal year and should be submitted to the State Housing Board for approval.

Check Register: Checks issued for projects 372 and 200-1 are in voucher form.

There is no record of cash balances for the checking accounts. It is recommended that a check register be installed for all checking accounts and that progressive balances be shown.

Positions Bonded: Employees and members of this Authority who handle or who are responsible for cash under Chapter 372 and Chapter 200 are not bonded. It is recommended that the necessary positions be bonded.

Central Office Costs: The salaries and operating costs of the central office are all charged to the Federal projects. It is recommended that these costs be prorated among all the projects.

Subsidy 372: Project 372 was fully occupied on October 1, 1947. As of March 31, 1950, the City of Holyoke had not received the subsidy of 2% of the final cost of development. The financial records of the Holyoke Housing Authority indicate a cost of development of \$551,079.20. Assuming that this amount is the final cost of development, the City of Holyoke should receive an annual subsidy of \$11,021.58 for a period of five years. It is understood that the Holyoke Housing Authority has failed to secure the necessary data to support its expenditures on account of development cost thereby causing a delay.

LAWRENCE HOUSING AUTHORITY

REPORT No. H-18

Revolving Fund: Due to the fact that different projects are operating under the jurisdiction of the local authority, and expenditures are made that apply to all projects, a central disbursing fund has been set up which is called the "Revolving Fund". In order to establish this fund, \$10,000.00 was transferred from the federally aided project and \$1,000.00 was transferred from the Chapter 372 - Management Account. Obligations of all the projects are usually paid for from this fund, and at the beginning of each month, each project will reimburse the revolving fund for whatever was paid from the fund in the previous month that applied to each particular project.

Consolidation of Projects for Certification: Both Project I and Project II were constructed at the same site and have been consolidated into one project under "Management." It will also be considered as one project for the purpose of receiving its annual subsidy, which it will receive when certified by the State Housing Board in the near future.

LEOMINSTER HOUSING AUTHORITY

REPORT No. H-47

Annual Report: Section 26U of Chapter 121 of the General Laws, as amended, provides that the housing authorities shall make an annual report in the month of January to various state and municipal officials. No report of this type had been made to date of audit by this Authority. This matter was discussed with the Authority, and it is understood that steps will be taken to prepare this report.

Rents:

<u>Minor Dependents</u>	<u>Rent Income Ratios</u>	<u>Minimum Rents</u>
1 or less	18%	\$30 00
2	16%	26 50
3 or more	14%	23 50

Income Limitations

<u>Minor Dependents</u>	<u>Admission Limits</u>	<u>Continued Occupancy Limit</u>
1 or less	\$3,250 00	\$3,750 00
2	3,375 00	3,875 00
3 or more	3,500 00	4,000 00

Minute Book: It was noted that the minute book of the Authority was not kept current. From May 28, 1948 to January 6, 1950 the minutes of the meetings were kept on scrap paper. Some of the notes were very vague and were not dated. A member of the Authority explained that the minutes of the meetings are being copied into the minute book whenever convenient.

LOWELL HOUSING AUTHORITY

H-58

General - Books of Accounts of Authority Kept by Authority's Accountant: This examination was initiated on June 15, 1950. At that time it was noted that the cash books and ledgers pertaining to the various projects had not been posted since April 30, 1950. After counting the cash and asking the Accountant to obtain the bank statements on the various accounts, it was necessary to suspend the audit until the records could be brought up to date by the Authority. On June 30, 1950 the books were still not currently posted. Because of this, it was impossible to take a trial balance of the general ledger and reconcile and balance the various cash and bank accounts. It was also impossible to properly analyze cash receipts and disbursements and make an analysis of the accounts receivable. It was further noted that only one report has been sent to the State Housing Board since the inception of the project. It was understood that the April report will be a resume of the activities of the project from July 18, 1949 to April 30, 1950. It is recommended that monthly reports should be prepared and sent to the State Housing Board for all necessary months. An annual report should have also been sent in the month of January in accordance with Section 26U of the Housing Authority Law.

Chapter 372 - Project V-19105: It was noted that on date of audit a total of \$1,199.95 was due the Lowell Housing Authority from present tenants for outstanding rent, which is aged as follows:

Ageing of Accounts Receivable

Six Months Overdue	\$ 186 30
Four Months Overdue	126 00
Two Months Overdue	316 73
Current	570 92
	<u>\$1,199 95</u>

Analysis of Cash Disbursements: It was noted that a Title Examination Fee of \$1,750.00 was improperly charged to Account Number 1410-Administration Expenses. It is advised that this fee should have been charged to Account Number 1440-Acquisition of Site.

MALDEN HOUSING AUTHORITY

REPORT No. H-26

Project 200 - Travel Expense: The Travel Expense account was charged with \$192.95 which was the expense incurred for the Ground Breaking ceremony and \$24.75 for the spade used in connection with this ceremony. Included also is a charge for \$4.87 which was paid to the attorney of the Authority which was actually spent for meals. These would appear to be improper charges to the Travel Expense account.

Project 200 - Deposits on Plans and Specifications: On hand at the date of visit was a check in the amount of \$50.00 which represented a deposit for plans and specifications. This check was given to the Authority at the beginning of the project and to date it would appear that the depositor does not intend to return the plans and specifications. It is suggested, therefore, that this check be deposited in the Development Fund and that the Cost of Development be reduced accordingly.

Project 200 - Furniture and Fixtures: It was noted that an invoice dated December 10, 1949 in the amount of \$259.20 for eight chairs included a provision for a 2% discount if paid within ten days. This invoice was paid December 16, 1949 which was within the ten day period but the discount was not taken. It is advised that the Authority contact the vendor so that this matter may be adjusted.

Chapter 372 - Expenditures: It will be noted in Schedule No. IV of this report that the only expenditure made from the funds of this project was a partial payment on the \$20,000.00 grant from the City to the Housing Authority. All other expenses incurred on this project were paid from the funds of the Title V project. By this method of accounting, it erroneously appears that the project is operating at a profit and that the City, will over the period of the lease, be reimbursed the entire amount of its grant. This arrangement creates the illusion that this investment in remodeling the apartments was a wise one because the City will appear to recover its money. If the expenses applicable to this project were paid out of the income of the project and a provision made for the amortization of the remodeling costs, the profit shown from operation would be reduced considerably and it is

conceivable that a loss from operation would result.

By the present system of accounting, the true picture is distorted in that the profit shown on the Chapter 372 project is overstated while that of the Title V project is understated by the amount of these expenses that are applicable to the Chapter 372 project. This is not correct accounting procedure and it is suggested that each project be charged specifically with its own expenses so that the true profit or loss from operations may be readily determined.

MARBLEHEAD HOUSING AUTHORITY

REPORT No. H-42

General - Annual Report Not Submitted to the State Housing Board: In this connection it was noted that the annual report required under Section 26U of Chapter 121 of the General Laws, as amended, had not been submitted to the State Housing Board. Inasmuch as this report was supposed to have been sent to the State Housing Board on or before January 31, 1950, it is advised that this report be compiled and submitted as required.

Project 200-1 - Overpayment of Architect's Fee: This audit was initiated on May 23, 1950. At that time it was noted that the architect had been paid a total of \$12,340.89. In computing the architect's fee, by applying the percentages shown in the tables attached to the architect's contract it was noted that his fee should have been only \$11,322.99, an overpayment of \$1,017.40. It is therefore recommended that the necessary steps be taken to adjust this matter.

Project 200-1 - Deposits of Cash Receipts: In checking the used receipts, it was noted that collections of approximately \$483.75 were made between April 26, 1950 and April 29, 1950 but were not posted to the cash receipts book and deposited until May 1, 1950. It is suggested that rent receipts be entered in the cash book and deposited daily.

MATTAPOISETT HOUSING AUTHORITY

REPORT No. H-38

Deposits on Contracts: It was noted that there were two checks totaling \$190.09 in the office on the date of visit. These checks had been received as guarantees on contracts and are subject to refund upon satisfactory completion of the contracts.

During the course of the audit these checks were deposited in the bank.

Canceled Checks: It was noted that the bank statement and related checks for January 1950 could not be located for use in the current audit.

MEDFORD HOUSING AUTHORITY

REPORT No. H-37

General - Cash Held in Office: While balancing cash on the date of audit several envelopes were noted containing various sums totalling \$143.00. This money represented partial payments of rents on active and inactive tenants' accounts, also income received from sales of a stove and a refrigerator. This money had been received at various times in various amounts from April 1, 1949 to May 17, 1950. Some of this money had originally been received in the form of postal notes and money orders. These had been cashed and the currency was held in the office. Some of the money received in 1949 represented payments on a tenants' account which was charged off when the Federal project was turned over to the city. It is recommended that this money be entered immediately in the proper records and the money deposited.

It was understood that partial payments of rent are accepted and the cash held in the office pending receipt of the balance due. It is suggested that in the future when partial payments of rent are accepted, that the money be entered in the cash book and on the tenants' ledger account.

General - Insurance Coverage: On the date of audit several items not adequately covered by insurance were noted. They are:

- (1) Public Liability Insurance on Shepherd Brooks House: The records of the Authority show that no insurance of this type is carried.
- (2) Fire Insurance on Furniture and Fixtures: There apparently is no coverage on the furniture and fixtures in the office of the Authority.
- (3) Fidelity Bonds: The State Housing Board, in general, requires bond coverage in the amount of \$5,000.00 for each \$500,000.00 of funds available during development. At present the Medford Housing Authority

has notes outstanding in the amount of \$1,715,000.00.

(4) Burglary Insurance On or Off Premises: At present deposits are made daily. The amounts deposited are often in a substantially large amount. As of date of audit there were 210 units occupied and it is hoped that initial occupancy of 150 additional units will be made in July of this year. This will mean a substantial increase in the amounts deposited.

In view of the above instances it is recommended that the matter of insurance coverage be taken up with the State Housing Board as to their suggestions relative to the proper amounts and types of coverages needed.

General - Petty Cash Slips not Signed: In this connection, it was noted that in many instances petty cash slips, although approved, were not signed by the receiver.

Shepherd Brooks House - Tenants' Accounts Receivable: It was noted that the balance as determined by analysis was \$40.00 less than that determined from the trial balance of the tenants' ledger sheets. Upon examination of the tenants' ledger sheets it was noted that charges in the amount of \$45.00 had been made which were not reflected on the rent roll. It was further noted that cash in the amount of \$5.00 had been received and had not been entered in the cash receipts book. It is understood that this \$5.00 will be entered on the books and deposited in the bank.

Shepherd Brooks House - Operating Budgets not Submitted as Required: Under Section 7 of Chapter 372, no expenditure shall be made by any city or town, or by any housing authority, board or officer acting as agent for such city or town in carrying out the provisions of Sections 4 and 6, of more than \$1,000.00 in any one year without the approval of the State Housing Board. In order to eliminate the necessity for processing individual requests for expenditures exceeding the stipulated \$1,000.00, the State Housing Board approves annual budgets for the operation of such projects. This apparently constitutes approval for making expenditures up to the limit of such budgets without further formality.

This project has been occupied since September of 1946 and to conform to Chapter 372 the Authority should have submitted an operating budget to December 31, 1946 as well as operating budgets for the years 1947, 1948, 1949 and 1950. In this connection it is mentioned that the remodeling of this project was done under Chapter 13 of the Acts of 1946 and the Authority was apparently unaware of the fact that this was repealed by Chapter 372.

Shepherd Brooks House - Deficit from Operations: In this connection it was noted that during the period from November 1, 1948 to April 30, 1950 this project was operated at a loss. An operating statement covering this period indicated that expenses exceeded the income in the amount of \$41.98.

Brooks Village - Tenants' Change Fund: This fund is maintained for the purpose of making change. It was noted on date of audit that a disbursement was made from it in the amount of \$18.35 on July 26, 1949. This was for revenue stamps and recording fees in connection with the development of project 200-1. It is recommended that this matter be adjusted.

Brooks Village - Stamp or Petty Cash Fund not Shown on Books: In this connection a box was found containing currency in the amount of \$16.93 and postage stamps in the amount of \$2.80. This represented the balance of a so-called Stamp or Petty Cash Fund. It was noted that this account had originally been charged to an expense account. It is understood that this fund will continue to be carried. It is therefore suggested that an account be opened in the general ledger for its control.

Brooks Village - Tenants' Security Deposits: In connection with this account, it was noted that the balance in this account was \$2,050.00. A trial balance of this account indicated that \$10.00 should have been refunded to a tenant in October 1947. This tenant was evicted in July 1947 and in October of 1947 had paid the balance of rent owed. This former tenant has since passed away and the whereabouts of his legal heirs is apparently unknown.

This trial balance also indicated that an additional \$30.00 was held for tenants who had vacated owing rents in the aggregate amount of \$278.84. It was noted that at the time this project was turned over to the City these accounts had been charged off. These de-

posits should have been used in reducing the amount charged against Collection Losses.

Brooks Village - Operating Budget not Submitted as Required: The operation of this project under Chapter 372 became effective as of April 1, 1950. It was noted that the operating budget to December 31, 1950 had not been submitted to the State Housing Board as required. It is advised that a budget be submitted as soon as possible.

Brooks Village - Cost of Sales and Service to Tenants Charged to Expenses: In this connection it was noted that various items are purchased by the Authority for repairs to property occasioned by negligence of tenants, etc. In instances where the damage is found to have been the fault of the tenant, he is charged for the item. There is no adjustment made reducing the actual expense to the Authority for the expenses so reimbursed. Consequently the expenses of the Authority are overstated by these amounts. It is suggested that in the future the account charged for these purchases be reduced by the amounts charged the tenants.

Brooks Village - Changes in Accounting Procedure: It was noted that the accounting procedure followed varied in several instances from that prescribed by the State Housing Board. These include the following:

Utility surcharges are credited to the account Dwelling Commercial Utilities. These amounts should be credited to Dwelling Rent Schedule.

Refunds of unearned rent were charged to Dwelling Rent Schedule. These amounts should be charged to the account Dwelling Vacancy Loss, the balance of which represents the amounts of rent not realized due to the vacancy.

Collections on accounts charged off are credited to Miscellaneous Income. They should be credited to the account Collection Losses.

Project 200-1 - Development Cost Charges Included in Sundry Accounts Receivable: It was noted that on July 7, 1949 a disbursement was made in the amount of \$25.00 to cover anticipated expenses to be incurred by the Clerk of the Board of Appeals in connection with a petition for the sub-division of the site of the project. Due to the fact that a refund was anticipated, this amount was charged to Sundry Accounts Receivable. In April of 1950 an additional disbursement was made to cover the expenses in excess of the original \$25.00. The Sundry Accounts Receivable account was not adjusted at that time.

Project 200-1 - Accounts Receivable Included in Development Costs: In this connection it was noted that in spite of the fact that the Executive Pay Roll should have been prorated between Projects 200-1 and 200-2, it was charged entirely to the Administration Expenses of Project 200-1. This caused an overstatement of \$1,511.25.

Project 200-1 - Stamp Fund not Shown on Books: While balancing the cash an envelope was found containing currency in the amount of \$11.36. This represented the unexpended balance of the Stamp Fund. This fund was not set up in the books of account as an asset, where it should be shown.

Project 200-1 - Surveys and Maps Charged to Borings and Test Pits: It was noted that an expenditure in the amount of \$400.00 was charged to the Architectural and Engineering subsidiary account, Borings and Test Pits. This expenditure was for drawings required by the City Engineer in connection with the sub-division of the project. It is suggested that this amount be charged to the Acquisition of Site, subsidiary account, Surveys and Maps.

Project 200-1 - Site Improvement Charged to Structures and Equipment: In this connection it was noted that there were no charges for Site Improvements. It was noted, however, that Site Improvements in the amount of approximately \$78,750.00 had been charged by the contractor. This amount had been included in the charges to Structures and Equipment. It is suggested that the Site Improvements be brought on the records and the Structures and Equipment account be adjusted accordingly.

MIDDLEBOROUGH HOUSING AUTHORITY

REPORT No. H-4

Contract Deposits During Development: It is noted that a deposit placed with the local Authority during the development period and which was subject to refund had not been deposited in the bank and credited to the account "Deposits During Development Period" as

outlined in the instructions of the State Housing Board.

On the date of audit the treasurer had custody of a certified check in the amount of \$460.00 as security on a contract. This check was returned during the course of the audit.

No other deposits were noted.

Unearned Discount: It is noted that the difference between the maturity value and the purchase price of United States Treasury Bills is being credited to the Interest Expense Account upon purchase.

It is recommended that this difference be credited to the "Unearned Discount" account until maturity date or other date of settlement of the Treasury Bills.

Architect's Fees: It is noted that the total fee payable as computed by the architect is not in agreement with the total fee payable as determined by the method of computation outlined by the State Housing Board.

This difference amounts to only \$50.00.

The local Authority has called the attention of the architect to the difference.

MILFORD HOUSING AUTHORITY

REPORT No. H-7

Administration Fund - Lack of Records: On date of audit, 45 of the units known as project I had been occupied. Occupancy of these units began on December 15, 1949 and was completed on January 31, 1950. In this connection it was noted that no books of record had been opened to cover transactions relating to the management of the units occupied. In order to properly record transactions, it will be necessary to open up control accounts in the general ledger and install a cash book and tenants' accounts receivable ledger, etc. A rent roll was available and a bank account had been opened. Rent receipts given to tenants are used, but they are not numbered, hence no control could be established over them.

This matter was discussed with the Executive Director, and it was understood that he had requested the occupancy department of the State Housing Board, in a letter dated January 14, 1950, to advise him on various aspects of the management of the project, including the installation of accounts.

Architect's Fees: There is only one project under the supervision of the Authority. It is divided into two sections referred to in the various contracts as projects I and I-A. It was planned originally to have but one project of 45 units, and at that time bids were secured for construction and a contract was consequently awarded. Various other contracts for financial assistance, architectural fees, etc., were entered into. At a later date it was considered expedient by the local Authority to increase the number of units to be constructed by 24 (project I-A), thus making a total of 69 units. At this time new bids were requested by advertisement, and a second construction contract was awarded. It was necessary, therefore, to amend the various other contracts to include these additional units. In this connection it was noted that the contract for architectural services was amended to include the new construction, and it also stated that this fee was to be based upon the combined development cost of the two sections of the project.

An examination of the architect's bills as rendered by him and paid by the local Authority to date of audit, showed that he was basing his fee for the projects on the two individual sections and applying the fees individually to each section, rather than applying the combined total of the two sections as required by the terms of the amended contract. On the basis that the architect is using, the fee for his work came to \$35,796.39. A recomputation based upon the combined total of the two contracts comes to \$34,669.91, a difference of \$1,126.48. Payments to the architect to date of audit totaled \$25,057.91.

This matter was discussed with the Executive Director, and he acknowledged that the method used by the architect was incorrect. He stated that he would take the matter up with the architect and that the fee would be adjusted on a later bill.

MONTAGUE HOUSING AUTHORITY

REPORT No. H-19

Rental Charges: The rent charged to each tenant will be at the flat rate of \$35.00 per month. The basis of this rental charge is not a percentage of net family income. This arrangement, however, has been approved by the Chairman of the State Housing Board.

Investments: Investments in U. S. Treasury Bills were carried at cost on the general ledger. It is recommended that such investments be set up at maturity value and that the unearned discount be set up as a deferred credit as prescribed by the manual of in-

structions of the State Housing Board.

Bonding: It is recommended that the Executive Director, who handles the collection of rents, be included in the blanket position bond.

NEW BEDFORD HOUSING AUTHORITY

REPORT No. H-25

General - Joint Expenses of the Several Projects: Expenses for pay roll and certain miscellaneous expenses which are chargeable to both the Federal projects and the Chapter 200 projects are paid from the bank account of the Federally-Aided project. At the end of each month Project 200-1 reimburses the Federally-Aided project for the amount that is chargeable to the Chapter 200 projects.

In turn, Projects 200-2 and 200-3 reimburse Project 200-1 for their proper share of the expenses.

In order to provide sufficient cash to meet these items, Project 200-1 had advanced \$2,500.00 which was deposited in the bank account of the Federally-Aided project. This advance is being carried as an Account Receivable on the books of Project 200-1.

Certain miscellaneous expenses that are chargeable to Chapter 200 projects and that have no connection with the Federal projects are frequently paid from the funds of Project 200-1. At the end of each month Projects 200-2 and 200-3 reimburse Project 200-1 for their proper share of the expenses.

Whenever possible these expenses are charged on the basis of applicability. Where such distribution is not proper, an allocation is made on the basis of the number of units.

It was noted that the local Authority had voted to establish a revolving fund for the payment of such joint expenses in conformance with instruction received from the State Housing Board. As of the date of audit this revolving fund had not been established.

General - Investments: It was noted that investments are carried at cost value on the books of the three projects.

It is recommended that investments be carried at maturity value and that the difference between the maturity value and the purchase price be credited to an "Unearned Discount Account" in conformance with instructions received from the State Housing Board.

General - Development Cost Analysis: It was noted that the Development Cost Analysis, as used for the three projects, was not in conformance with the specimen form as suggested in the manual of instructions of the State Housing Board.

No approval by the State Housing Board for this departure from the suggested form could be located.

General - Local Fund: The New Bedford Housing Authority received \$3,800.00 from the City of New Bedford in 1939 for preliminary expenses of the Authority. This money was an outright grant and was not subject to reimbursement.

According to the Executive Director, disbursements were made from this fund for travel and other miscellaneous expenses.

There is a separate bank account for this fund, known as the Local Fund, and as of March 31, 1950, it was understood that the balance on deposit was \$999.82.

Project 200-3 - Payment of Expenses of Project 200-1: It was noted that there was a payment from the funds of Project 200-3, in the amount of \$139,683.71, on account of the construction contract of Project 200-1.

Project 200-3 was reimbursed within a few days.

The disbursement was made from the funds of Project 200-3 because the bank transfer of the funds of Project 200-1 had not been arranged.

Attention of the Authority was called to the fact that payment of an expense of one project from the funds of another project, with the exceptions of payments from a revolving fund, is contrary to the Development Fund Agreements and the Contracts for Financial Assistance.

NORTH ADAMS HOUSING AUTHORITY

REPORT No. H-34

Development Cost Analysis: Accrued interest in the amount of \$2.08 and premium in the amount of \$1.00 are not deducted from the development cost. It is suggested that the financial records reflect these entries to reduce the cost of development in the amount of \$3.08 on the records of the Authority.

Bonding: It is recommended that employees and members of the Authority who

handle cash transactions be bonded under the so-called "Blanket" position bond.

NORTHBRIDGE HOUSING AUTHORITY

REPORT No. H-41

Bonding: It was noted that the Personnel handling funds were not bonded. This matter was discussed with the Chairman, and the employees were bonded as of May 25, 1950.

NORTHAMPTON HOUSING AUTHORITY

REPORT No. H-20

Title V: The financial records of Title V project were not examined. The Authority is acting as an agent for the Federal Government in maintaining and operating this project. The transfer of this project to the Northampton Housing Authority will probably be accomplished in the near future.

Development Cost Analysis: The manual of instructions issued by the State Housing Board prescribes the following:

"Interest During Development: There shall be charged to this account the interest on obligations for the financing of development costs. Amounts received from rebated interest shall be credited to this account. Amounts received as gains on investments shall be credited to this account. Also includes premiums received on sale of notes and bonds."

The Development cost analysis of the Northampton Housing Authority does not reflect interest earned on investments in the amount of \$3,074.84, premium on sale of notes in the amount of \$19.00 and accrued interest in the amount of \$5.90, for a total credit of \$3,099.74. This analysis does not show the accrued interest charges on temporary notes in the amount of \$4,765.24. It is recommended that the development cost analysis of this Authority be adjusted to reflect these entries.

Investments: It is recommended that investments in United States Treasury Bills be carried on the books at maturity value and that the unearned discount be set up as a deferred credit. When the investments mature the unearned discount should be closed out to the interest during development account.

Rental Schedule: The rental charge per unit is not based on a percentage of net family income. The Authority has set up a base rent of \$35.00 per month for all tenants whose annual income does not exceed \$2,800.00 regardless of the size of the family or of the unit, and for each additional \$60.00 of yearly income or part thereof, the rent will be increased \$1.00 per month. It is further understood that the maximum admission limit for all tenants is \$3,200.00, and for continued occupancy, \$3,750.00

NORTH ATTLEBORO HOUSING AUTHORITY

REPORT No. H-45

Bonds: It was noted that there were no fidelity bonds for employees in effect as of the date of audit. It is recommended that all persons connected with the handling of the funds of the Authority be bonded.

Deposits on Plans: It was noted that there were two deposits totaling \$100.00 in the office of the Authority on the date of audit. These deposits were for plans and specifications and are subject to refund upon their return to the local Authority.

The receipt of these deposits had not been reflected on the books of account.

It is recommended that all deposits be credited to the appropriate account upon receipt and be deposited in a bank account in conformance with instructions of the State Housing Board.

PITTSFIELD HOUSING AUTHORITY

REPORT No. H-31

Federal Project: The financial records of the Federal Project were not examined since they are subject to audit by Federal auditors.

Document File: This Authority was unable to present for examination the Administrative Fund Agreement, or the bids by the General Contractors and sub-contractors on construction. It is suggested that a document file be maintained in compliance with paragraph 17, section 1, of the manual of instructions of accounting procedure, issued by the State Housing Board.

Rent Roll: It is recommended that a Rent Roll be set up to support charges in the Accounts Receivable control account, as prescribed by the accounting instructions issued by the State Housing Board.

Rent Receipts: Rent receipts and adjustment slips for the period May 10, 1949 to August 23, 1949 were not available for examination. The manager states that these receipts were apparently lost during the moving of the project office.

Accounts Receivable Ledger: The detail of the ledger for the Tenants' Accounts Receivable was not in agreement with the control account in the General Ledger. If the missing rent receipts, as previously noted, and adjustment slips were available, it would have been possible to trace the variance in the two ledgers. It is recommended that a monthly trial balance be taken of the detail ledger and proved to the control account. It is further recommended that the accounts receivable control account be adjusted to agree with the detail accounts.

Investments: There was no record of any investment of surplus funds in United States Treasury Bills to reduce the cost of interest during development. The following schedule indicates the surplus funds that were on hand for the Authority to invest at the end of each month during the audit period:

<u>Date</u>	<u>Receipts</u>	<u>Disbursements</u>	<u>Cash Balance</u>
October 31, 1948	\$900,258 50	-	\$ 900,258 50
November 30, 1948	-	-	900,258 50
December 31, 1948	-	-	900,258 50
January 31, 1949	450,031 50	-	1,350,290 00
February 28, 1949	250,000 00	\$1,205,811 55	394,478 45
March 31, 1949	-	94,347 52	300,130 93
April 30, 1949	395,785 11	125,288 76	570,627 28
May 31, 1949	-	116,487 75	454,139 53
June 30, 1949	182 09	132,218 90	322,102 72
July 31, 1949	134 52	57,522 31	264,714 93
August 31, 1949	27 86	26,397 82	238,344 97
September 30, 1949	-	22,724 29	215,620 68
October 31, 1949	-	18,180 85	197,439 83
November 30, 1949	10 11	11,591 10	185,858 84
December 31, 1949	-	19,360 95	166,497 89
January 31, 1950	-	4,919 75	161,578 14
February 28, 1950	10,000 00	153,183 93	18,394 21
March 31, 1950	-	-	18,394 21

Some part of the foregoing balances might have been invested in accordance with a letter of instruction dated September 21, 1949 which was mailed to all housing authorities by the State Housing Board.

Development Cost: Paragraph 2, Development Cost of Project, of the Contract for financial assistance dated October 7, 1948 between the Commonwealth of Massachusetts acting by and through the Chairman of the State Housing Board and the Pittsfield Housing Authority reads as follows:

"Development Cost of Project: The cost of construction and development of the project (hereinafter called "actual development cost"), shall not exceed the aggregate principal amount of One Million, seven hundred fifty thousand dollars--(\$1,750,000.00), (hereinafter called "maximum development cost"). If the Chairman shall, in his absolute judgement, determine that the actual development cost will exceed the maximum development cost, the Authority will promptly reduce the scope of the project to the extent and in a manner satisfactory to the Chairman so that the actual development cost will not exceed the maximum development cost. If the Chairman shall, in his absolute judgement, determine that the actual development cost will be less than the maximum development cost, he shall certify to the Authority such revised development cost of the project, and such revised development cost shall thenceforth constitute the maximum development cost of the project under this contract. In any event, the Authority agrees that it will develop the project

at the lowest practicable development cost. The Authority will furnish to the Chairman, at such time or times as he may require, an analysis of the actual development cost of the project broken down between dwelling facilities' cost, as such term may be defined by the Chairman, and all other costs of the project."

To the date of this audit the total cash disbursements for development costs were \$1,741,605.79. Recorded on the financial records of the Authority were accounts payable in the amount of \$21,429.31 which would bring the total development cost to \$1,763,035.10 as of that date. This amount exceeds the maximum development cost in the contract for financial assistance by the amount of \$13,035.10 as of March 31, 1950.

The following statement on development costs shows the financial condition of the Authority:

Cash Expenditures as of March 31, 1950		\$1,741,605 79
Add Recorded Accounts Payable:		
Interest on Notes	\$ 6,068 11	
Contract Retentions	14,080 97	
Due Administrative Fund	1,280 23	21,429 31
Total Cost of Development as of March 31, 1950		\$1,763,035 10
Add Contemplated Future Commitments:		
Administration Building	\$13,217 00	
Architects Fee 4%	528 68	
Equipment for Building	2,000 00	
Additional Landscaping	2,000 00	17,745 68
		\$1,780,780 78
Correction to Recorded Accounts Payable:		
Contract Retentions recorded	\$14,080 97	
Actual Accounts Payable:		
General Contractor	\$12,000 00	
Screens and Shades	3,281 73	
Parking Area	359 25	
Landscaping	441 14	16,082 12
Deficit in Recorded Accounts Payable		2,001 15
		\$1,782,781 93
Deduct Interest Charged to Development Applicable to Management (Estimated)		11,214 60
Total Estimated Cost of Development		\$1,771,567 33
Maximum Cost of Development Per Contract for Financial Assistance		1,750,000 00
Estimated Excess		\$21,567 33

This statement compiled from the records of the Pittsfield Housing Authority and data supplied by the manager of the project indicates that this Authority will exceed the contract for financial assistance by \$21,567.33. To finance this estimated overdraft on the contract for financial assistance it is apparently the intention of the State Housing Board to transfer additional funds from Administration to the Development Fund. If the contract for financial assistance is amended upward and additional financing is necessary, it will probably mean an increase in rents to insure the financial stability of the project. It is recommended that the State Housing Board investigate the anticipated expenditures of this project and adjust them to fall within the maximum development costs as per the original contract for financial assistance.

PLYMOUTH HOUSING AUTHORITY

REPORT No. H-39

Change Orders: As of the date of audit, change order No. 3 in the amount of \$1,529.49 had been entered on the books and had been included in the contractor's "Periodical Estimates for Partial Payment."

However, it was noted that this change order had not been approved by the Chairman of the State Housing Board as required by the instructions issued by the State Housing Board.

SALEM HOUSING AUTHORITY

REPORT No. H-1

General - Books of Account of Authority Kept by Private Accountant: This examination was initiated on November 16, 1949. At that time it was noted that the cash books and ledgers pertaining to the various projects had not been posted since September 30, 1949. The books of this Authority are posted and financial statements prepared by a private accountant who visits the office periodically. After counting the cash and securing bank statements on the various accounts on date of this audit, it was necessary to suspend work until the books were brought up to date by the private accountant. This work was finally performed and the records brought up to date of audit on November 21, 1949.

Accounts should be posted currently, and unless the present accountant is able to maintain current accounts, it is recommended that this work be performed by an employee of the Authority.

General - Deposits of Rent Receipts: It was noted on date of audit, that rent receipts totaling \$492.60 were on hand. This amount represented collections of rent for the period from November 4, 1949 to November 16, 1949. It is recommended that rentals be deposited daily or as soon thereafter as practical.

General - Deposits on Plans: There was an old balance in this account covering five deposits in connection with Chapter 372 projects. It was understood that one of the depositors had returned the plans, and, therefore, was entitled to a return of his deposit. It is recommended that the deposit be returned to this individual and that the remaining four deposits be forfeited.

On Chapter 200 projects, it is recommended that this account be handled in accordance with the procedure as outlined in the manual of instructions issued by the State Housing Board.

Chapter 372 - Operating Account: Transactions in this account were checked only for the period from January 1, 1949 to date of audit, since the present account was established on that date from balances determined by an audit of the Division of Accounts. Reserves for Vacancy and Collection Losses and for Repairs, Maintenance and Replacements were set up at that time, and the balance to be paid to the City of Salem determined. A journal entry prepared on this date states that this method of setting up the books was agreed upon by accountants of the State Housing Board, the Division of Accounts, and the private accountant employed by the Authority.

Chapter 372 - Transfer of Funds from Operating Account to Construction Account on Projects under Chapter 372: On August 5, 1949 it was determined by the Housing Authority that they had insufficient funds in the Construction Account to cover commitments made under the School and Mason Streets contract and also the Barstow Street contract. These obligations on that date amounted to \$374,678.43 including payments of \$352,317.03 and a balance of \$22,361.40 due the contractors. The funds available in the Construction Account to meet these obligations amounted to \$12,370.99, therefore commitments exceeded the amount available by \$9,990.41. To meet the situation the Housing Authority transferred \$9,990.41 from the Operating Account to the Construction Account. This transfer, when noted by the State Housing Board, was declared to be contrary to the provisions of Chapter 372, and the Board ordered the amount so transferred to be replaced in the original account from City funds. It has since been determined that a total of \$4,617.57 of the total involved was a proper charge to the Operating Account, therefore the amount to be replaced, amounts to \$5,372.84.

Chapter 372 - Tenants' Security Deposits: In connection with a trial balance taken of these deposits on date of audit, it was noted that balances were reflected in accounts of various tenants who had vacated their apartments and to whom the deposits had been returned. It is, therefore, recommended that these accounts be closed and to prevent recurrence that trial balances be taken monthly of these deposits.

It was further noted that in some instances the balance in this account included monies deposited by former tenants owing more than the amount to their credit in this fund. It is recommended that these balances be credited to these accounts in accordance with the manual of instructions prescribed by the State Housing Board for Chapter 372 projects.

Chapter 372 - Rent Due: It was noted that on date of audit a total of \$1,418.01 was due the Salem Housing Authority from present and former tenants.

Chapter 200-1 - Cost of Construction: It was noted that although this project was originally planned to cost \$362,000.00, on date of audit, actual costs, with only minor charges unreported, amounted to only \$322,392.11, a substantial saving.

Chapter 200-1 - Rents: A final determination of rents to be charged cannot at this time be reached since several important factors are not available. They are as follows:

- (1) Interest to be paid under permanent financing.
- (2) Amount of State subsidy needed to insure low rental housing.
- (3) Final and complete construction costs.

It would appear that present rentals are somewhat higher than will be necessary when these factors are settled.

Chapter 200-1 - Permanent Financing: This project is rapidly approaching the stage wherein permanent financing can be entered into.

The State Housing Board apparently prefers to continue temporary financing because of favorable interest rates now prevailing. This is not good planning - the fact that favorable interest rates prevail today provides all the more reason that permanent financing should be immediately entered upon.

Chapter 200-1 - Change Orders Affecting Contracts Not Included in General Ledger Control Account - Contract Awards: In analyzing the Contract Award Account, it was noted that additions to and deductions from contracts by virtue of Change Orders are not reflected in this account. It is recommended that these amounts be posted to the account.

Chapter 200-1 - Development Costs: It was noted on date of audit that there was no control account for development costs in the General Ledger. This account is prescribed by the Manual of Accounting Procedure issued by the State Housing Board and it is recommended that this account be set up in the General Ledger. It was also noted that while subsidiary accounts for development costs were maintained, the analysis of these accounts had not been posted since March 31, 1949. This analysis should be brought to date and maintained currently as prescribed by the Manual on Accounting Procedure of the State Housing Board.

Chapter 200-2 Income from Investments: It was noted that the income from investments was credited to the interest account at the time of investment rather than at the maturity date. This amount should have been set up as a liability at the time of investment as prescribed by the manual of instructions of the State Housing Board.

SOMERVILLE HOUSING AUTHORITY

REPORT No. H-23

General - Luncheons and Conferences: In checking the cash disbursements for the various projects it was noted that since January 31, 1949 a total of \$1,221.39 had been disbursed to various hotels, restaurants, etc., for luncheons and conferences. This amount was charged to the various projects as follows:

<u>Fund and Account</u>	<u>Amount</u>
Clarendon Hill, Management Fund - Management Expense	\$ 265 28
Linden Avenue, Management Fund - Management Expense	53 14
Project 200-1, Development Fund - Administrative Expense	582 05
Project 200-2, Development Fund - Administrative Expense	320 92
Total	<u>\$1,221 39</u>

Of the total indicated, \$172.30 was for a luncheon following the groundbreaking ceremonies which is a usual practice of most housing authorities. In addition to this \$308.82 was for various functions involving federal and State Housing conferences.

The balance of the amount disbursed in this period of time, \$740.27 was spent in various amounts ranging from \$16.00 to \$124.22 at various restaurants and hotels.

General - Cash in Office: It was noted that occasionally employees take money out of their pockets to make change and which is later reimbursed when change is available.

Inasmuch as there is a petty cash fund of \$50.00 maintained in the office it would appear that an adequate supply of small bills could be kept on hand particularly at the beginning of the month.

General - Partial Payment of Rent: It was noted when checking the rent receipts to the cash receipts that on certain days the cash receipts indicated an amount larger than the rent records for these same days. Later in the month the rent records indicated larger amounts than the cash receipts book. This was explained that when a tenant makes a partial payment of rent the amount is entered in the cash book. A temporary receipt, usually a memorandum slip is given the tenant. When the tenant pays the balance of the rent due, a permanent receipt is issued for the full amount of the rent. At this time, the temporary receipt is destroyed. It is therefore suggested that a permanent receipt be given for all cash received, regardless of whether it is partial payment or not.

General - Establishment of a Revolving Fund: In analyzing the cash disbursements it was noted that generally all disbursements made which involve expenses applicable to more than one project, are made from the Administration Fund of Project 200-1. Although this seems to be the most practical method of making these disbursements, it is still contrary to the terms of the Administration Fund Agreement, and it is recommended that a Revolving Fund be established and maintained as prescribed in the Manual of Accounting Procedure of the State Housing Board for these purposes.

General - Minutes of the Meetings Not Kept Current: This audit was initiated on April 6, 1950. At that time it was noted that there was no semblance of order in keeping the records of the minutes of the meetings since the meeting of December 20, 1948. The minutes of the meetings subsequent to that date were kept in various forms some type-written and others written in long hand. They were not left together in one place. Some were found at the office of the attorney for the Authority presumably for typing, others in a desk drawer, in a brief case, in an envelope, and loose, and some even at the home of the Executive Director. During the course of this audit it was necessary for the Authority to engage the services of a part-time employee to arrange these minutes in chronological order, and to type them in legal form for binding.

Certain items supposedly approved at meetings of the members of the Authority could not be located. These included the following:

Reductions of utility rates charged tenants - as of April 1, 1949 the utility rates charged to the tenants was reduced by .25¢ a total of \$12.00 per month. The journal entry setting up the charge to the Tenants' Accounts Receivable included the following notation: "Reduction of .25¢ in utility rate per unit, per vote of the Authority." This vote was not found in the minutes of the meetings available.

Rebate of utility charge to tenants - in September of 1949 a tenant was refunded the amount charged him for utilities for the month of August. The voucher reads "as voted per minutes of meeting, September 8, 1949". This vote could also not be found in the minutes which were presented for audit.

Vote on the award of construction contract for Project 200-2 - no record could be found of the vote of the members of the Authority for the award of this contract.

In a letter dated May 5, 1949 from the Director of the State Housing Board, the establishment and maintenance of such a permanent record book was recommended. The importance of such records was stressed because of the fact that, as a public agency, the actions of the Authority are open to public scrutiny. It is therefore recommended that the minutes of the meetings be typed as soon as possible after each meeting and placed in binders, provided for that purpose.

General - Annual Report to the State Housing Board: In this connection, it was noted that the annual report to the State Housing Board as required under Section 26U of Chapter 121, as amended had not been prepared. It is suggested that this report be compiled and submitted as soon as possible.

General - Overpayment of Employee on Retroactive Pay: It was noted that at a special meeting of the Authority held on May 5, 1949 an employee was granted a salary increase of \$5.00 per week retroactive to May 1, 1949. The amount due the employee at that time was \$5.00 for only one week's pay. The amount actually paid the employee was seven weeks' pay or \$35.00.

Chapter 372 - No Approvals for Expenditures in Excess of Operating Budgets: It was noted that for the Clarendon Hill project for the 1949 calendar year, the expenditures exceeded the required estimated budget in several instances. These amounts ranged

from \$108.98 to \$975.31. Section 1 of the Instructions for Preparation of Operating Budgets, issued by the State Housing Board states: "Any expenditures beyond such approved budgets must be approved on an individual basis." There appeared to be no approval from the State Housing Board for the expenditures which were in excess of the estimates. It is suggested that periodical comparisons be made between the actual expenditures and the budgets. In this way the Authority would be able to request the necessary approvals in sufficient time.

It was also noted that the Authority requested approval of an expenditure of \$966.05 for storm windows at the Linden Avenue project. This approval was granted provided that it would not exceed the approved budget. In spite of the fact that this approval was so qualified, this amount was charged to the Repairs, Maintenance and Replacements accounts and reserved from the 1949, Earned Surplus. This caused the Repairs, Maintenance, and Replacements accounts to exceed this budget by \$608.49 and the total operating expenses to exceed the budget by \$339.05.

Chapter 372 - Vacancy Loss Charged to Utilities: It was noted that a tenant had been refunded the amount charged him for utilities for a prior month. This was charged to the Dwelling Commercial Utilities account and should have been charged to Vacancy Loss, the balance of which represents the total dwelling rents, including utility charges, not realized in any period.

Chapter 372 - No Authorization for Charge Off of Uncollectible Rents: It was noted that on December 31, 1949 a journal entry was made to charge off uncollectible rents in the aggregate amount of \$208.50. Of that amount, \$135.50 represented rent for December 1948 and \$73.00 rent for January 1949. These accounts had been turned over to an attorney for action in the early part of 1949. As of the date of audit there did not appear to be any communication on file from him regarding these particular cases. It is suggested that this attorney be requested to state in a letter to the Authority whether or not these accounts in his opinion are collectible.

Chapter 372 - Funds Appropriated by City: In connection with this fund it was noted that it was carried on the Linden Avenue Management books under the title of Administration Fund. Due to the fact that this money was on deposit in the same bank as the Administration Fund of Project 200-1, its name was changed to Contingency Fund.

Chapter 200 Project 200-1 - Adjustment of Notes Authorized, Temporary Account: In connection with this account, it was noted that the balance of this account per the books was \$2,765,000.00. This balance was in excess of the contract for financial assistance, as amended in the amount of \$74,000.00. It is suggested that this account be adjusted so as to agree with the amount of the contract for financial assistance.

Chapter 200 Project 200-1 - Rents: A final determination of rents to be charged cannot at this time be reached since several important factors are not available. They are as follows:

1. Interest to be paid under permanent financing.
2. Amount of State subsidy needed to insure low rental housing.
3. Final and complete construction costs.

Chapter 200 Project 200-1 - Bank Service Charges: In connection with this item, it was noted that the cash balance of the Administration Fund, per the books was \$1.50 more than the balance per the bank statement. This difference represented a bank service charge that had not been entered on the books.

Chapter 200 Project 200-1 - Tenants' Accounts Receivable: It was noted that there was a balance of \$46.50 due from a tenant who had vacated his apartment in the middle of the month. According to employees of the Authority, the tenant gave adequate notice of his intention to vacate his apartment. It is suggested that this amount be charged to the Vacancy Loss Account.

Chapter 200 Project 200-1 - Washing Machine Income: It was noted that the company operating the concession does not send any statement with its checks for commissions on collections. It is suggested that the Authority contact the service company and request a statement showing the gross income from the washing machines.

Chapter 200 Project 200-2 - Vote of Authority on Construction Contract: It was noted that there was no record of the vote of the members of the Authority on the awarding

of the construction contract. According to the attorney for the Authority, this vote was taken at a special meeting of the Authority at the State Housing Board. The minutes of that meeting were supposed to have been typed at the State Housing Board and forwarded to the Authority for its records. Apparently this has not yet been done. It is therefore recommended that the Authority contact the State Housing Board and request that these minutes be made available. It is further suggested that at meetings at which the Secretary is not present, the Authority elect a Secretary pro-tem for the purpose of taking minutes.

SPRINGFIELD HOUSING AUTHORITY

REPORT No. H-8

Project 200-1: This project originated under Chapter 372 and bonds in the amount of \$1,600,000.00 were sold by the City of Springfield. The proceeds of this sale were turned over to the Springfield Housing Authority. The bids secured for construction exceeded the bonds issued so the Authority voted to convert the project to a state-aided project under Chapter 200. The Authority sold its own temporary notes and paid to the City of Springfield the \$1,600,000.00 plus interest of \$34,140.00. This transaction was approved by the State Housing Board. Bids for construction of the project were readvertised under Chapter 200 and the contracts were awarded on the basis of these bids.

Income from Investments: It was noted that the income from investments was credited to the interest account at the time of investment rather than at maturity date. This amount should have been set up as unearned discount at the time of investment as prescribed by the manual of instructions of the State Housing Board.

TAUNTON HOUSING AUTHORITY

REPORT No. H-11

Surety Bond: It is recommended that the clerk who handles the cash receipts be bonded.

Chapter 372 - Operating Account: As of December 31, 1949 the Federal Government relinquished all its contractual and property rights and transferred the entire project to the City of Taunton.

The present account was established on January 1, 1950 from balances obtained from sworn statements submitted to the Federal Government by the Taunton Housing Authority in order to effect the transfer.

Therefore, transactions in this account were examined only from January 1, 1950 to January 31, 1950.

Transactions in this account affecting the project known as "Building No. 26", which is still under Federal supervision, were only checked to such an extent as was deemed necessary to prepare proper statements for the Chapter 372 project.

Chapter 372 - Fire Insurance: As of the date of the audit the Chapter 372 project was not covered by fire insurance. During the course of the audit, steps were taken to procure this insurance coverage.

Chapter 372 - Accounting Records: Although statements for this project are prepared quarterly on the accrual basis by a private accountant, a complete system of accounting for this project is not being maintained by the Authority as of the date of the audit.

It is recommended that an adequate accounting system, which will include the use of a general ledger and detail cash records, be installed, and that these accounts be posted currently.

Chapter 200 - Change Orders Affecting Contracts Not Included in General Ledger Control Account - Contract Awards: In analyzing the contract award account, it was noted that additions to and deductions from contracts by virtue of Change Orders are not reflected in this account. It is recommended that these amounts be posted to this account.

Chapter 200 - Occupancy: At the date of audit, occupancy had not been completed. However, while the audit was in progress, complete occupancy was achieved.

Chapter 200 - Errors in Estimate for Partial Payments: Because of errors in the computation of the periodical estimates for partial payment, there was an underpayment to the contractor and a corresponding undercharge to development costs in the amount of \$8,598.92 on January 31, 1950.

Periodical Estimate for Partial Payment No. 8, which bears the necessary approvals

shows a total of work performed to date of \$1,043,574.00.

The records of the local authority show that \$980,825.08 had been paid to the contractor and that \$54,150.00 had been retained.

Thus, the total credits on account of contract work performed amount to \$1,034,975.08 while the estimate claims \$1,043,574.00. A difference of \$8,598.92 exists.

Proper adjustment of this discrepancy will be made as soon as possible.

UXBRIDGE HOUSING AUTHORITY

REPORT No. H-28

Administration Fund - Lack of Records: On date of audit all 22 units of this project were occupied. Occupancy of these units took place as of March 1, 1950. In this connection it was noted that no account book had been opened to cover transactions relating to the management of these units. In order to properly record the transactions, it is necessary to open accounts in the general ledger, install a cash book and tenants' accounts receivable ledger, etc. A rent roll was available and a bank account had been opened. Rent receipts given to tenants are used, but they are not numbered, therefore no control could be established.

The matter was discussed with the Executive Director, and it is understood that he has requested the accounting department of the State Housing Board for assistance regarding the installation of the necessary accounts.

WALTHAM HOUSING AUTHORITY

REPORT No. H-27

Chapter 200 - Project 200-1, Contract Awards (Change Orders): In analyzing this account and tabulating the change orders it was noted that the private accountant duplicated his posting of a change order for \$2,353.33. As the posting was also made to the Incompleted Contracts account, it left both accounts overstated by the same amount.

Chapter 372 - Project V 19111: The private accountant in posting expenses, regardless of the nature of their expense, puts them in one account called expenses. It is recommended that these expenses be posted to one of the following accounts:

- 4100 - Management
- 4200 - Operating Services
- 4300 - Dwelling and Commercial Utilities
- 4400 - Repairs, Maintenance and Replacements
- 4700 - General Expenses

WATERTOWN HOUSING AUTHORITY

REPORT No. H-29

Rent Income: Rent receipts being used are not numbered by the printer in advance hence, have little value for auditing purposes. No inventory of these receipts was taken.

Rent: The Authority's office on the third floor of the Town of Watertown Administration Building is rent free, and their telephone charges are on a flat basis of ten dollars per month and are payable to the town.

Salaries: The salaries of the employees of the Authority were all pro-rated between Chapter 372 and Chapter 200 up until the time of the conversion of Chapter 372 project to Chapter 200-1 project. Since this change-over the salaries have not been pro-rated. The bookkeeper stated that the State Housing Board had advised her not to pro-rate the salaries after that conversion.

Bond Coverage: In checking the bond coverage, it was noted that the same insurance was carried by two insurance companies. The bond of the company was canceled by the Authority on January 19, 1950, but through some oversight this was not done until April 1, 1950.

WESTBOROUGH HOUSING AUTHORITY

REPORT No. H-32

Administration Fund: On date of audit no Tenants' Account Receivable ledger had been set up nor had the cash in this Fund been segregated from the Development Fund.

This matter was discussed with the Executive Director and it is understood that he will take steps to open up a ledger for this purpose. Separate funds in the bank will also be opened in the near future.

WESTFIELD HOUSING AUTHORITY

REPORT No. H-36

Bonding: It is recommended that employees and members of the Authority who handle cash be bonded under the so-called "Blanket" position bond.

WEST SPRINGFIELD HOUSING AUTHORITY

REPORT No. H-13

Title V: The financial records of Title V project were not examined. The Authority is acting as an agent for the Federal Government in maintaining and operating this project. The transfer of this project to the West Springfield Housing Authority is now in process.

Chapter 372: Transactions in the construction and the management accounts were examined only for the period from May 24, 1948 to February 28, 1950. All transactions prior to May 29, 1948 were examined by the Division of Accounts in the State Department of Corporations and Taxation.

Chapter 372 - Financial Charges: The financial charges that appear on the final certified development cost are not recorded on the records of the Authority. It is recommended that these charges be recorded on the financial records so that they will reflect the total cost of development as certified by the Authority.

Chapter 372 - General Contractor: The general contractor on Project 372 did not submit with his bid a performance bond as was required. The Authority in lieu of this bond arranged and executed a life insurance policy on the life of the contractor. Because of this all payments due the contractor were made to the West Springfield Trust Company.

WORCESTER HOUSING AUTHORITY

REPORT No. H-12

Lincolnwood

Tenants' Accounts Receivable: A trial balance was taken of the individual tenants' accounts in the accounts receivable ledger on date of audit and a balance established. When this balance was compared with the control account in the general ledger, a variance of \$69.24 was noted. It was understood that the bookkeeper who keeps the accounts receivable ledger on the project does not take a trial balance of the accounts monthly in order to check the control account in the general ledger kept at the Authority's main office.

This matter was discussed with the accountant for the Authority and it was understood that he will take steps to trace the difference. It was further understood that the bookkeeper will take a trial balance of the individual tenants' accounts at the end of each month.

Sales and Services: In instances where it is necessary for the Authority to replace window shades, fuses, electric bulbs, etc., destroyed by a tenant, a charge is made in the tenant's account for items so replaced. The trial balance of the individual tenants' accounts on date of audit showed a total of \$40.45 in this category. No control account in the general ledger was noted for these items.

This matter was discussed with the accountant for the Authority and it is understood that a control account in the general ledger will be opened for these items.

AUDIT OF METROPOLITAN TRANSIT AUTHORITY AND RELATED AGENCIES

Audit of Metropolitan Transit Authority: Chapter 675 of the Acts of 1949 provides as follows:

"Chapter 544 of the acts of 1947 is hereby amended by striking out section 12 and inserting in place thereof the following: SECTION 12. The trustees shall determine the character and extent of the services and facilities to be furnished, and in these respects their authority shall be exclusive and shall not be subject to the approval, control or direction of any state, municipal or other department, board or commission. Except as herein otherwise provided, the department shall have the same general supervision and regulation of, and jurisdiction and control over, the services and facilities of the authority as it has over street railway companies. The department of the state auditor shall annually make an audit of the accounts of the authority and make a report thereon to the trustees, the governor and council and the general court. In making said audits, said department of the state auditor may call upon the department of public utilities and other departments, commissions, officers and agencies of the commonwealth for such information as may be needed in the course of making such audits. The state auditor may employ such auditors, accountants and other assistants as he deems necessary for carrying out his duties under this section, and chapter thirty-one of the General Laws and the rules made thereunder shall not apply to such employees."

Audit of the Metropolitan Transit Authority was initiated on September 7, 1949 and on June 24, 1950 a report of this audit was issued. In order to make a comprehensive audit of the Metropolitan Transit Authority, it was necessary to examine also the accounts of the Boston Elevated Railway Company, The Boston Metropolitan District, and the Transit Mutual Insurance Company. All of this work was completed during the fiscal year and reports issued.

General: Individual copies of the audit reports have been submitted to His Excellency the Governor, the Lieutenant Governor, the President of the Senate, the Speaker of the House, the State Librarian, the Governor's Councilors, and the Senators, Representatives and officials of the cities and towns of the Boston Metropolitan District and the members of the Board of Trustees and officials.

SCHEDULE OF TRANSIT AUDITS	---		FISCAL YEAR 1949-1950	
Agency	From		To	Report No.
BOSTON ELEVATED RAILWAY COMPANY	Jan.	1, 1947	Aug. 29, 1947	2663
METROPOLITAN TRANSIT AUTHORITY	Aug.	29, 1947	Dec. 31, 1949	2663
TRANSIT MUTUAL INSURANCE COMPANY	Jan.	1, 1947	Dec. 31, 1949	2692
BOSTON METROPOLITAN DISTRICT	Sept.	16, 1946	Nov. 21, 1949	2635

BOSTON ELEVATED RAILWAY COMPANY AND
METROPOLITAN TRANSIT AUTHORITY

REPORT No. 2663

This audit was initiated under the provisions of Chapter 675 of the Acts of 1949, which amended Section 12 of Chapter 544 of the Acts of 1947 and provides for an annual audit of the accounts of the Metropolitan Transit Authority by the Department of the State Auditor.

Operations of the Metropolitan Transit Authority and its predecessor the Boston Elevated Railway Company, for the purposes of this report, have been divided into five major periods:

1. Private Ownership, July 2, 1894 to June 30, 1918
2. Private Ownership under Public Control without Deficit Assessments, July 1, 1918 to June 30, 1931
3. Private Ownership under Public Control with Deficit Assessments, July 1, 1931 to August 29, 1947
4. Public Ownership under Chapter 544, Acts of 1947, August 29, 1947 to August 2, 1949
5. Public Ownership under Chapter 572, Acts of 1949, August 2, 1949 to date

1. Private Ownership, July 2, 1894 to June 30, 1918: Most of the present-day difficulties of the Railway can be attributed to this period. The road was systematically bled to provide unearned dividends to investors; and to enhance the value of the stock of the Railway, tremendous debts were incurred, and the physical assets of the road were allowed to deteriorate to a point where normal operations presented a daily hazard to passengers. Much subway and tunnel construction was completed during this period at exorbitant costs, which added substantially to the burden of the already unstable financial structure of the Railway, and these costs even today continue to be a burden on the taxpayers.

During this period, the road was operated with complete disregard and indifference to the needs of the public, the sole benefactors being the stockholders.

2. Private Ownership under Public Control without Deficit Assessments, July 1, 1918 to June 30, 1931: In 1918, the Boston Elevated Railway Company was overburdened with debt and a bankrupt corporation. Its physical assets were completely worn out and its credit was at the lowest possible ebb. Under similar conditions, thousands of otherwise reputable corporations have gone into receivership and their stockholders have taken consequent financial losses. The Elevated Corporation, however, was sufficiently influential to avoid these usual penalties of bad management and to push through the legislature of 1918 the so-called Public Control Act. While some public monies were funneled into the Corporation through this Act, its main purposes were:

- (a) to make public credit available to the Railway
- (b) to guarantee a continuation of dividend payments to the stockholders

The debt of the Corporation increased substantially in this period.

During this period, the profits of the stockholders were guaranteed, while tremendous debts were piled up against the taxpayer, and the next step into public subsidies was inevitable.

3. Private Ownership under Public Control with Deficit Assessments, July 1, 1931 to August 29, 1947: By 1931, public credit alone was not enough to meet the ever expanding financial needs of the Corporation. Chapter 333 of the Acts of 1931 extended the Public Control Act to 1959 and provided public subsidies in the form of deficit assessments on the fourteen cities and towns of the area served by the Railway, primarily, to insure dividend payments to stockholders. Although thirteen years elapsed between the passage of the original Public Control Act and this final perfecting step, subsidization of the Corporation from public funds was inevitable from the date the legislature was committed to this policy of preserving the interests of the stockholders.

By 1959, had the affairs of the Railway continued a normal course, it would have been returned to the stockholders in excellent physical condition, completely free of debt (except for a non-interest bearing mortgage held by the Commonwealth), and during this period the stockholders would have collected their regular annual dividends. The advent of World War II upset these calculations, and skyrocketing costs resulted in deficits so large and so burdensome to the taxpayer that an aroused public opinion forced action

which resulted in a hasty and ill-conceived public purchase of the Railway.

During this period, the stockholders nevertheless continued to receive regular dividends at the direct expense of the taxpayer.

4. Public Ownership under Chapter 544, Acts of 1947, August 29, 1947 to August 2, 1949: It was the contention of this Department at the time public ownership was being urged, that the road should be taken by eminent domain (such a step being legal under the provisions of Section 17 of Chapter 333 of the Acts of 1931 - Appendix C); however, over all objections, including even those of the directors and stockholders of the Corporation and without real consideration of all the elements involved, the road was purchased by the public at a price of \$85.00 per share. As a result of this arbitrary and unthinking action, a capital gains tax - which may exceed 30% of the total involved - has been assessed on the transaction by the Federal Government. This tax, representing more than six million dollars in the present debt of the Railway could have been saved to taxpayers and stockholders had the proponents of Chapter 544 accepted any one of several amendments which were suggested at the time. Instead, they stubbornly insisted that no capital gains tax could result, even though they had in their possession at the time full and authentic knowledge of the tax in the form of schedules prepared at their own request by one of the leading tax authorities in the entire nation.

This same indifference to the costs upon taxpayers has dominated every major transaction in the history of the Railway.

(a) Chapter 544: Chapter 544 of the Acts of 1947 (Appendix F) can best be described as inadequate legislation. The Act accomplished only one purpose, i. e., public ownership, and added substantially to the already tremendous debt of the Railway. It did not even pretend to face the major problems of the Railway, and, while it did eliminate dividends to stockholders, it replaced the dividends with interest paid to bondholders as a result of borrowings made to provide funds to buy the stock.

(b) Transfer of Ownership: Chapter 544 of the Acts of 1947 provided for the creation of the Metropolitan Transit Authority and the acquisition by that Authority of the entire assets, property, and franchises of the Boston Elevated Railway Company. Section 1 of this Act stated:

"The territory within and the inhabitants of the following cities and towns, to wit: Arlington, Belmont, Boston, Brookline, Cambridge, Chelsea, Everett, Milton, Medford, Malden, Newton, Revere, Somerville, Watertown, and the territory within and the inhabitants of such other cities and towns as may hereafter be added by specific acts of the general court after compliance with the provisions of this act relative to extensions of the Metropolitan rapid transit system existing hereunder for the purposes of this act, are hereby made a body politic and corporate and a political subdivision of the commonwealth under the name of the Metropolitan Transit Authority, ..."

Section 2 of the Chapter states, in part:

"The affairs of the authority shall be managed by a board of five public trustees,, who shall be appointed by the governor, with the advice and consent of the council."

The Board of Public Trustees qualified on July 2, 1947, and on that day succeeded to the offices of the Board of Trustees of the Boston Elevated Railway Company, and operated the then privately-owned Railway property in accordance with the provisions of the Public Control Act of 1918 and amendments thereto, until August 29, 1947.

On August 29, 1947, under authority granted by Section 5 of Chapter 544, the Metropolitan Transit Authority exercised the option set forth in Section 17 of Chapter 333 of the Acts of 1931 and acquired all the assets, property, and franchises of the Boston Elevated Railway Company in consideration of the assumption by it of all the Company's then outstanding indebtedness and liabilities and the payment to the Board of Directors of the Boston Elevated Railway Company on August 29, 1947 of a certified check of \$20,297,490.00, drawn on the National Shawmut Bank, which amount was the equivalent of 238,794 outstanding shares of common stock at \$85.00 a share. Funds for this and other purposes had been provided by the sale authorized by Section 7 of Chapter 544 of the Acts of 1947 of a bond of \$22,868,000.00 to the Boston Metropolitan District - the other purposes being \$570,000.00 for the retirement of the bonds of the West End Street Rail-

way Company assumed by the Elevated and payable September 1, 1947 and \$2,000,000.00 to provide a "Reserve Fund" to take care of deficits in operations.

(c) Capital Gains Tax: Following the receipt of the certified check for \$20,297,490.00, the Board of Directors of the Boston Elevated Railway Company deposited \$6,362,870.75 of that amount in a special account under joint control with the Collector of Internal Revenue, to be held on account of a possible liability for Federal capital gains tax on the sale of the net assets of the Company to the Authority.

The Boston Elevated Railway Company on July 2, 1947 filed a bill in equity in the Superior Court, under Chapter 231A of the Tercentenary Edition of the General Laws, in which it sought a ruling that the Metropolitan Transit Authority had assumed and was obligated to pay the plaintiff's Federal income tax on the "Capital Gain" realized from the sale to the Authority of its whole assets, property, and franchises as a going concern. The Superior Court reported the case on a statement of agreed facts to the Supreme Judicial Court who, on January 4, 1949, held that, "a decree is to be entered declaring that the 'Capital Gain' tax was not assumed by the Authority."

(d) Redemption of Bonds: On August 29, 1947, the Authority paid to the First National Bank of Boston by check drawn on the National Shawmut Bank \$570,000.00 for the redemption of bonds of the West End Street Railway Company due September 1, 1947. A letter in the files of the Authority from the Old Colony Trust Company, dated March 1, 1948, showed that all bonds had been paid and cancelled except one bond #277 of \$1,000.00. Following a request from this Department to it, a letter dated January 23, 1950 was received from the Old Colony Trust Company, stating that the \$1,000.00 bond was still outstanding and that they were holding that amount to pay the bond when it was presented.

(d) Deficits Paid: On October 28, 1947, under the provisions of Section 25 of Chapter 544 of the Acts of 1947, the State Treasurer paid to the Metropolitan Transit Authority \$4,440,101.62. This payment represented deficits incurred by the Boston Elevated Railway in the following periods - payment of which had been withheld by administrative action of the Governor and Council:

Year ended March 31, 1941	\$2,341,167 29
Nine months ended December 31, 1941	1,311,406 44
Year ended December 31, 1946	787,527 89
	<u>\$4,440,101 62</u>

The following entries were made on the accounts of the Metropolitan Transit Authority following receipt of this payment:

	<u>Debit</u>	<u>Credit</u>
Sept. 1947 - Entry No. 31		
A/C		
410 Miscellaneous Accounts Receivable		
410101 Bills for Collection	\$4,440,101.62	
448 Unearned Surplus		
448300 Credit for amount to be received from Comm. of Massachusetts		\$4,440,101.62
December 1947 - Entry No. 145		
A/C		
420 Other Unadjusted Debits		
420411 Amount to be paid by Comm. of Massachusetts a/c of assessable deficit, year ended Dec. 31, 1947	\$711,737.31	
448 Unearned Surplus		
448500 Portion of Excess of Cost of Service over Income for year ended Dec. 31, 1947, applicable to Reserve Fund, incurred prior to August 29, 1947	\$2,000,000.00	
to		
450 Earned Surplus-Unappropriated		
450105 Excess of Cost of Service over Income, January 1 through August 29, 1947		
450106 Excess of Income over Cost of Service, August 30 through Dec. 31, 1947		\$2,711,737.31

(Entry No. 145 - Continued)

To transfer to Unadjusted Debits the amount of the assessable deficit for year ended Dec. 31, 1947 in accordance with Section 11 of Chapter 544, Acts of 1947; and to transfer to Unearned Surplus an amount of \$2,000,000, which represents the amount of the Reserve Fund established by Chapter 544, Acts of 1947, on the basis set forth in the memorandum attached to the following entry.

The following memorandum taken from the records of the Metropolitan Transit Authority purportedly explains these entries:

(COPY)

MEMORANDUM

In connection with the transfer to the depreciation reserve at Dec. 31, 1947, of the \$4,440,101.62 amount received from the Commonwealth of Massachusetts in October 1947 under Section 25 of Chapter 544, it is agreed that only the excess of this amount over \$2,000,000.00 or \$2,440,101.62, be transferred to the depreciation reserve. The \$2,000,000.00 proposed reduction represents the portion of the deficit for the entire year 1947, which is not recoverable from the Comm. of Mass.

The \$4,440,101.62 amount received from the Commonwealth does not represent earnings or earned surplus of the Authority and is not a recovery of deficits incurred by the Authority. It is in the nature of a capital donation to the Authority by the Commonwealth. It is on this basis that the proposal was agreed upon, to transfer this amount to the depreciation reserve, thereby offsetting a capital deficiency in the property accounts by increasing the depreciation reserve to an amount which more nearly approaches the estimated depreciation which has accrued on properties currently in use as indicated by recent accounting and engineering surveys. It would appear to be unrealistic to report a capital surplus of the Authority of \$4,440,101.62 under circumstances where it is recognized that the property accounts may be overstated in terms of original cost less accrued depreciation by an amount even greater than \$4,440,101.62.

The \$2,000,000.00 of unrecoverable deficit from 1947 operations is the portion of the 1947 deficit which by statute is to be applied against the reserve fund. On the basis that the first \$2,000,000.00 of deficit for the year is to be applied against the reserve fund it is reasonable to conclude that this \$2,000,000.00 deficit was incurred during the period of January 1 to August 29, 1947, during which period the entire cost of service deficit amount to \$2,787,121.15. This period, being prior to the commencement of operations by the Authority, it would seem that the unrecoverable portion of the deficit for the period is in the nature of a "Capital Deficit", or deficit in capital, which existed at August 29, 1947 at the time the Authority assumed control over the properties and operations. It would further appear that, at August 29, 1947, the reserve fund created by the Statute had already been exhausted before control was assumed by the Authority.

On the basis of the above reasoning, it seems proper and desirable to offset the \$2,000,000.00 deficit in capital against the capital credit of \$4,440,101.62 and to transfer the net of the two amounts to the depreciation reserve. The effect of this treatment on the December 31, 1947 balance sheet would be that the balance sheet eliminates any reference to the reserve fund (the fund having been exhausted and transferred to general cash) and an earned surplus or deficit of the Authority. The Excess of Income over the Cost of the Service of \$75,383.84 for the period August 30 to December 31, 1947, results in reducing the Cost of the Service Deficit at August 29, 1947 from \$787,121.15 to \$711,737.31, the amount recoverable for the year ended December 31, 1947.

By the application explained above, in future years, assuming a continuation of annual deficits, the balance sheet would always show no reserve fund and no surplus or deficit. If the Authority for any year should have an operating surplus, the reserve fund would be restored (up to \$2,000,000.00) and the balance sheet at the end of such year would show a reserve fund on the asset side and a surplus on the liability side in each case in the amount of the operating surplus for the year (up to \$2,000,000.00).

If this treatment is not followed the balance sheet at December 31, 1947 will show no reserve fund on the asset side and a deficit of \$2,000,000.00 on the liability side, a condition that would persist in future years if there were a continuation of annual deficits. In the event that the Authority should have an operating surplus in a future year of, say \$500,000.00, the balance sheet at the end of such year would show a reserve fund of \$500,000.00 on the asset side and a deficit of \$1,500,000.00 on the liability side.

This reporting of \$2,000,000.00 deficit at December 31, 1947 would be unrealistic from the standpoint of the Authority. It might convey the erroneous impression that the Authority had incurred a deficit of \$2,000,000.00 during the brief four months' period of its control over the operation of the properties. It would be difficult to explain, on the basis of the statute or otherwise, that this deficit is one to which the Authority fell heir at August 29, 1947 or that it is in the nature of an initial deficit in capital. Accounting-wise a new corporate organization, regardless of whether or not it takes over a going operation, necessarily commences business with so much capital and without any accumulation of surplus earnings or losses. If it is conceded that the reserve fund was, in effect, exhausted at August 29, the Authority, under the present statute, can never have a deficit for balance sheet reporting purposes since all deficits from operations subsequent to August 29, 1947 are recoverable by the Authority from the Commonwealth of Massachusetts, as provided in Chapter 544 of the Acts of 1947.

February 17, 1948

(6)

Particular attention is called to the statement by the Authority in this memorandum describing these monies as "in the nature of a capital donation to the Authority by the Commonwealth."

The Bureau of Internal Revenue of the United States Government has contended that the deficits for the twelve months ended March 31, 1941 and the nine months period ending December 31, 1941, amounting to \$3,652,573.73, which were included in these monies, should have been accrued as income and as such were taxable. Litigation in this matter is still pending before the United States Tax Court, and to meet this possible liability the Metropolitan Transit Authority, on their balance sheet as of December 31, 1949, has reserved \$1,812,377.44.

If the contention of the Bureau of Internal Revenue proves to be correct and payments of deficits were properly income to the Boston Elevated Railway, the \$4,440,101.62, when received by the Metropolitan Transit Authority, should have been set up as earned surplus and used to offset the 1949 deficit, a refund therefor in that amount less \$2,000,000.00 used to reinstate the Reserve Fund would be due and payable to the cities and towns of the District. If, on the other hand, the Tax Court finds the Metropolitan Transit Authority is correct and the payment of this deficit to the Metropolitan Transit Authority represented a capital donation to the Authority by the Commonwealth of Massachusetts, it will be the duty of the Metropolitan Transit Authority to return to the fourteen cities and towns the \$1,812,377.44 now reserved by them, since the amount was accrued in the years 1943 and 1944. In either event, following the decision of the Tax Court a substantial payment will be due the cities and towns of the Boston Metropolitan District.

(f) Refund of Federal Taxes: The balance sheet of the Authority as of December 31, 1949 includes under "Other Assets" an amount of \$591,972.56 entitled "Claim for Refund of Prior Years Federal Income Tax."

With reference to this item, the Third Annual Report of the Metropolitan Transit Authority reads as follows:

"Claims have heretofore been filed for the refund of federal income taxes paid by the Company for the year 1944 in the amount of \$591,972.56 (excluding interest), as a result of the carry-back of losses incurred in 1945 and 1946. The Authority will be entitled to all amounts received upon these claims. The government has proposed to allow this refund only in the amount of \$300,674.38 (excluding interest). Notwithstanding the Bureau's present position, it is believed that the refund will be ultimately allowed in approximately the amount claimed and appearing in the accompanying balance sheet."

This payment, when received, will add substantially to the cash balance of the Authority.

(g) Excessive Charges to the Cost of Service: Attention is directed to a statement in a pamphlet dated December 31, 1947 prepared by the Metropolitan Transit Authority, labelled "Depreciation Data." The following schedule is taken from it:

(COPY)

METROPOLITAN TRANSIT AUTHORITY
DECEMBER 31, 1947

IN THIS STATEMENT THE TOTAL CHARGED TO ROAD AND EQUIPMENT
ACCOUNTS IS SHOWN AS FOLLOWS:

	<u>Dec. 31, 1947</u>	<u>Dec. 31, 1946</u>
Property upon which Depreciation is accruable	\$81,307,631.79	\$73,204,457.66
Buses and Trackless Trolleys (depreciation accruable on unit basis)	<u>8,126,162.37</u>	<u>6,839,358.00</u>
	\$89,433,794.16	\$80,043,815.66
Property not subject to Depreciation or upon which no Depreciation is accruable currently.		
Property fully accruable in prior years	- *	8,337,144.10
Amounts charged to Road and Equipment for property in Process of Construction	534,119.69	164,796.18
Buses fully accruable in prior years	504,807.44	1,241,890.69
Land (including Taxes during Construction)	7,276,447.16	7,368,930.50
Items not considered as depreciable	12,617,898.02	13,190,322.36
Items not considered as depreciable (Chelsea Division)	<u>509,792.17</u>	<u>564,228.41</u>
TOTAL ROAD AND EQUIPMENT	<u>\$110,876,858.64</u>	<u>\$110,911,127.90</u>

* Included in Total \$81,307,631.79 above.

Particular attention is called to the footnote on the foregoing schedule which indicates that more than \$8,000,000.00 worth of "Property Fully Accruable" has been transferred arbitrarily by the Trustees of the Metropolitan Transit Authority to "Property Upon Which Depreciation is Accruable."

In a later schedule in that same report the amount of \$81,307,631.79, which has been inflated by the inclusion of property already fully depreciated, was used by the Trustees in calculating their depreciation at a rate of 2% for the year ending December 31, 1948.

This procedure has resulted in an excessive charge of approximately \$205,000.00 to the cost of service for the period from August 29, 1947 to December 31, 1948. During the period January 1, 1949 to August 2, 1949 this practice was continued and again the item "Property Upon Which Depreciation Is Accruable" was overstated by approximately \$7,800,000.00 and has resulted in an unjustified charge of approximately \$80,000.00 to the cost of service. In view of the excellent cash position of the Railway today, it is recommended that the present Trustees return this overcharge to the taxpayers by deducting the amount of \$285,000.00 from the deficit which has been reported for the period ending December 31, 1949.

(h) General: During this period of operation with the private Corporation finally removed from further consideration, it would seem that the then Trustees would have considered the taxpayer as their primary interest, and every possible consideration should have been devoted to his interests.

We have failed to find any sweeping economies that were effected during this period, and obviously from the manner in which the deficit payment previously mentioned was handled, the Trustees were more interested in building up the cash balances of the Metropolitan Transit Authority than relieving the taxpayers of unnecessary financial burdens.

5. Public Ownership under Chapter 572, Acts of 1949, August 2, 1949 to Date: The

main accomplishments of Chapter 572 of the Acts of 1949 were that it provided for a sensible deceleration of the rate at which the debt of the Metropolitan Transit Authority was being retired, and, in addition, provided for public ownership of the subways, tunnels, and rapid transit facilities, together with a lengthy but orderly retirement of borrowings made to construct these facilities.

Chapter 572 largely follows the recommendations made in an audit report issued by this Department on August 8, 1947, covering a report on the examination of the accounts of the Boston Elevated Railway Company to December 31, 1946.

(a) Refunding of Metropolitan Transit Authority Debt: Section 2 of Chapter 572 provided that on August 3, 1949, the Boston Metropolitan District should surrender to the Authority all bonds held by the District except those issued for the purchase of passenger carrying rolling stock and bonds issued for the purchase of subways and tunnels from the City of Boston, and in place thereof the Authority is to issue to the District one bond for the total amount of District bonds outstanding less any funds then held by the District for the purpose of paying bonds of the District. The effect of this was as follows:

AS AT AUGUST 3, 1949

Bonds held by the Boston Metropolitan District:

Issued by the Boston Elevated Railway Company (13)		\$74,049,917 00
Issued by the Authority (4)	\$26,885,000 00	
Less:		
Issued for the Purchase of Passenger Carrying Rolling Stock, St. 1947, Ch. 544, Sec. 22 (2)	3,003,000 00	23,882,000 00

Amount of Bonds Cancelled		\$97,931,917 00
---------------------------	--	-----------------

Less:

Bonds of the Boston Metropolitan District Retired	\$25,951,917 00	
Cash on Hand in Boston Metropolitan District	561,628 11*	26,513,545 11

New Bond Issued by the Authority to the District

\$71,418,371 89

* It is worthy of comment that when this large cash reserve was called to the attention of the Governor by this office on January 17, 1949, with a recommendation that it be immediately returned to the cities and towns, its existence was denied. This money accumulated as a result of a special compensation tax, which was provided by Section 6 of Chapter 333 of the Acts of 1931, and should long ago have been returned to the cities and towns of the District. In thus applying it against the total of the bonds of the Metropolitan Transit Authority, the taxpayers have finally received some benefit from it.

After August 3, 1949, the annual cost to the Authority will be:

- (1) Debt Reduction - \$1,000,000.00 annually payable, \$500,000.00 on June 1 and December 1
- (2) Interest in amount equal to the actual interest payable by the District on their outstanding bonds
- (3) An amount equal to the interest on new District bonds

It is obvious that the \$1,000,000.00 to be paid annually by the Authority will not be sufficient to meet the District's principal payments. The District, therefore, is authorized by Chapter 572 of the Acts of 1949 to issue refunding bonds as may be required to provide for obligations not covered by the annual payment.

Referring to the interest payable by the Authority to the District, it should be noted that a substantial annual reduction to the Railway in this item has been effected by Chapter 572 since formerly the bonds of the Boston Elevated Railway Company and the Metropolitan Transit Authority generally carried an interest rate of 2% more than the interest rate payable by the Boston Metropolitan District on corresponding issues.

(b) Purchase of Subways, Tunnels and Rapid Transit Facilities: Section 3 of Chapter 572 of the Acts of 1949 authorized the Authority to acquire these facilities from the City for an amount equal to the net debt of the City incurred for these purposes as of August 3, 1949, which was \$40,219,445.43, made up as follows:

Principal Transit Debt Outstanding	\$54,048,500 00
Less:	
Bonds and Cash in Sinking Funds	<u>13,829,054 57</u>
	<u>\$40,219,445 43</u>

Schedule No. XIX in this report shows the detail of these bond issues. Funds were provided for this purpose by the Boston Metropolitan District.

On August 3, 1949, the District executed bonds in a total sum equal to the aggregate amount by which the outstanding indebtedness of the City of Boston (\$54,048,500.00) less the face value of the securities and cash then held in the sinking funds of the City for such indebtedness (\$13,829,054.57). These bonds, each adapted to a particular sinking fund of the City totaling \$40,219,445.43 bear no interest, and ten days before any bonds of the City fall due, if the cash and obligations of the United States Government in the sinking fund will be insufficient to pay the principal, the District will pay to the City the amount of such deficiency.

The District also executed a note to reimburse the City for all loss resulting from the sale of any obligations of the United States Government held in the City's sinking funds, when the amount realized on such sales is less than the amount of such obligations, and, in addition, promises to pay the city, ten days before interest becomes due on outstanding indebtedness of the City, the amount by which such interest will exceed income of the City's sinking funds available to pay the same.

On August 3, 1949, the Authority executed a bond to the District maturing November 20, 2024 in an amount equal to the aggregate amount of the bonds of the District, namely, \$40,219,445.43. This bond provides that the Authority will pay the District on November 20, 1950 and each year thereafter 1 1/3 per cent of the amount of the principal, namely, \$536,259.27 as debt reduction and also, as interest, ten days prior to the interest day of all bonds issued by the District, an amount equal to the interest payable by the District. Funds to meet the reduction of debt are provided by the State Treasurer by direct assessment on the cities and towns of the District and interest is included in the cost of service of the Authority.

We do not agree with this procedure. The obvious purpose of this arrangement is to reduce the annual deficit as reported by the Metropolitan Transit Authority by \$536,259.27 and thus present a better picture to the taxpayer, who in reality will pay the \$536,259.27 automatically every year for seventy-five years.

The Authority also executed a note undertaking to pay on behalf of the District all amounts which the District will be required to pay the City on the note issued by the District hereinbefore mentioned.

All amounts paid reducing the principal of the Authority's bond will be used in paying bonds of the District issued under paragraphs (b) and (g) of Section 8A of Chapter 544 of the Acts of 1947, as amended, and pending such use will be held by the District.

Upon receipt of the bonds and note of the District, the Authority delivered them to the City, and, in addition, paid the City \$6,105.00. Upon such delivery and payment, all right, title, and interest of the City in all subways, tunnels, stations, rapid transit facilities, etc., whether existing or under construction, were transferred to and vested in the Authority.

For the purpose of refunding the District's rapid transit bonds, which will not be met by the Authority's payment in reduction of the principal, the District will from time to time issue bonds in the usual manner.

Clause F of Section 3 of Chapter 572 of the Acts of 1949 provides that as additional compensation for the property transferred from the City to the Authority, the Authority shall pay to the City \$2,334,457.28:

"...provided, however, that said additional compensation shall be paid in the following manner but not otherwise: If as of the last day of December in any year the reserve fund provided for by section thirteen shall exceed the amount originally established, the trustees shall, until said additional compensation has been paid in full, pay over to the city, on account said additional compensation, so much of the excess as is not necessary to reimburse the Commonwealth under section thirteen."

572 of the Acts of 1949, provides, that prior to applying clause F of Section 3 above, all past deficiencies since December 31, 1947, inclusive, must first be repaid to the Commonwealth.

Referring to the possible additional compensation to the City of Boston of \$2,334,457.28: this represents expenditures by the City of Boston, from time to time, in connection with the construction and financing of the tunnels and subways. The amounts set forth below were expenditures over and above rentals received and were included in the annual tax levy made by the City. The detail by units is as follows:

(a) Boylston St. Subway Extension	\$1,503,227 56
(b) Huntington Ave. Subway	601,975 58
(c) Hyde Park Railway	229,254 14
	<u>\$2,334,457 28</u>

- (a) This amount represents the 50% direct tax levy by the City of Boston for the years 1933 through 1947, exclusive of 1944 in which no assessment was made. The other 50% was paid by the Commonwealth.
- (b) This figure covered total expenditures for the years 1942 to 1947 inclusive. All were included in the tax levy of the City of Boston.
- (c) This amount was the excess of the Interest and Sinking Fund requirements over the actual rentals received for the years 1923 to 1948 inclusive.

Section 3 of Chapter 572 of the Acts of 1949 further provided that any sums previously borrowed by the City and not expended on August 3, 1949 shall be paid by the City to the Authority which shall use such sums for the purposes for which they were borrowed by the City.

In this way, on August 31, 1949 the Authority received \$228,411.07. The detail making up this amount is shown on Schedule No. XIX.

(c) Private Accountants' Report: In connection with the transfer of the tunnels owned by the City of Boston to the Metropolitan Transit Authority, the Trustees employed the services of a private accounting firm, and a report was submitted by it to the Trustees on September 21, 1949 entitled "A Limited Examination of the Books and Records of the Transit Department and Auditor of the City of Boston."

The first column appearing in Schedule A of that report headed "Detail of Source of Funds Not Available from Transit Department Records" included an amount totaling \$7,754,051.65. Our examination disclosed that \$7,750,000.00 of this amount were covered by bond issues, and that the total should have been added to the total of bonds reflected in the private accountants' statement. Their total of bonds was \$63,101,200.00, and it should have been \$70,851,200.00. These bonds are recorded on the records of the Transit Department. The column "Details of Source of Funds Not Available from Transit Department Records" would then be reduced to \$4,051.65, and it is the opinion of this Department that the heading is incorrect, and it should be labelled "Sundry Adjustments." This would eliminate the incorrect caption "Unknown Source" since the \$4,051.65 is apparently the net premium on financing and is so relatively small that clearance should be made through the suggested "Sundry Adjustments" column.

(d) Charges to Cost of Service: It is the opinion of this Department that in the operations of the Metropolitan Transit Authority the Board of Trustees have a responsibility to maintain good accounting practices, and that within those limits every consideration and benefit must be given to the taxpayers. When a choice arises between two bookkeeping methods, both within good accounting practices, the choice of the Authority should be the one which would be the least burdensome to the taxpayers.

Attention is directed to the fact that the "Statement of Income and the Cost of Service" appearing in the Third Annual Report of the Trustees of the Metropolitan Transit Authority, covering a period from January 1, 1949 to August 2, 1949, contains under "Other Deductions" from income an amount of \$931,538.79. The inclusion of this amount in "Other Deductions" raised the deficit for the period by a corresponding amount to a total of \$6,896,594.53, which deficit was reported to the State Treasurer, and the Metropolitan Transit Authority received payment of it on October 24, 1949. This amount of \$931,538.79 represented "Unamortized Discount and Expense less Premium" which had been carried on the books of the Authority for some time and each year a sufficient amount had been written off to amortize the full amount over the lives of the respective bonds concerned. This charge to cost of service was entirely unjustified, since it charged to a period of only seven months an expense which should have been distributed over seventeen years, and

was made with complete disregard for the taxpayer and represented a part of a deficit accrued under Chapter 544, for which the present Trustees disclaim all responsibility. A large concern of certified public accountants employed by the Metropolitan Transit Authority, referring to this charge, on December 28, 1949 wrote to the Comptroller of the Metropolitan Transit Authority, in part, as follows:

"The disposition of unamortized discount and expense, less issue premium on the old funded debt, however, required, special consideration. It was our conclusion that the Authority under good accounting practice, had the option either (a) of writing off the entire amount of unamortized discount and expense, less issue premium as of August 2, 1949, or (b) of continuing amortization after August 2, 1949 ratably over the maturities of the respective old issues (but not over the life of the new bond). ..."

Following a consultation with the Chief Accountant of the Department of Public Utilities, as a result of an official request for such a consultation by this Department under the terms of Chapter 675 of the Acts of 1949, the following letter was forwarded to the Chairman of the Board of Trustees of the Metropolitan Transit Authority:

(COPY)

April 13, 1950

Mr. Walter J. Waldron, Chairman
Board of Trustees
Metropolitan Transit Authority
Park Square Building
Boston 16, Massachusetts

Dear Sir:

On March 2, 1950 as a result of previous correspondence I wrote you as follows:

"With reference to your letter of March 1, 1950 regarding the deficit for the last five months of 1949, may I reiterate to you my recommendation that the Trustees withhold reporting the 1949 deficit to the State Treasurer, until such time as the current audit of the Metropolitan Transit Authority by this department is completed, or until such time as need for this additional cash is clearly demonstrated.

"I call your particular attention to the fact that the statutes do not state any specific date for the reporting of your deficits to the State Treasurer."

Our audit has now been completed to a point from which definite conclusions can be drawn.

Our original letter pointed out that on December 31, 1949 the Metropolitan Transit Authority had available in unrestricted cash a total of \$6,012,756.61. We note now that this unrestricted cash as of March 31, 1950 had risen \$831,495.01 to a total of \$6,844,251.62. This substantial increase corroborates our original statement that assessment of a \$1,354,292.29 deficit for the last five months of 1949 would be an unnecessary and needless burden on the taxpayers of the district, particularly since two separate fare increases placed upon the riders by your Board of Trustees have resulted in a daily increase in revenue which has averaged approximately twenty per cent.

In addition to these facts our audit now demonstrates that the deficit for the first seven months of 1949 has been overstated by at least \$931,538.79 as a result of charging to the cost of service unamortized discount, premium and expenses on bonds that were merely replaced on August 3, 1949. As a result I am today forwarding a letter to the Department of Public Utilities requesting that they take corrective steps in this matter. I am enclosing herewith a copy of that letter. You will note, that, to correct this bookkeeping entry which has needlessly increased the 1949 deficit by nearly one million dollars, we have recommended an equally simple accounting transaction which will remove for all time the possibility of saddling the taxpayers and car riders with this unjustified burden.

I find it difficult to understand the motives of your Trustees in permitting this unwarranted charge of nearly one million dollars to be made against the taxpayers of the district, particularly since a reputable firm of public accountants, hired by the Metropolitan Transit Authority itself, has stated the following in a letter to your Comptroller:

"The disposition of unamortized discount and expense, less issue premium on the old funded debt, however, required, special consideration. It was our conclusion that the Authority under good accounting practice, had the option either (a) of writing off the entire amount of unamortized discount and expense, less issue premium as of August 2, 1949, or (b) of continuing amortization after August 2, 1949 ratably over the maturities of the respective old issues. . . ."

You will note that your accountants have stated that the Trustees of the Metropolitan Transit Authority had a choice in this matter and they have selected the method which will cost the taxpayers nearly one million dollars unless corrected.

Since August 29, 1947, a total of \$22,949,288.23 in taxpayers' funds have been poured into this railway and the riders have been forced to accept two separate fare increases, and yet, when the trustees had an opportunity to relieve the taxpayers of a charge amounting to \$931,538.79, they have approved the additional levy.

Very truly yours,

/s/ Thomas J. Buckley
Auditor

Enclosure

As of the same date, the following letter was forwarded to the Chairman of the Department of Public Utilities:

(COPY)

April 13, 1950

Mr. Thomas A. Flaherty, Chairman
Department of Public Utilities
167 State House
Boston, Massachusetts

Dear Sir:

May I thank you, at this time, for your cooperation in making available to this department the services and advice of your Chief Accountant in the matter which I am herewith bringing officially to your attention.

This Department is presently engaged in an examination of the accounts of the Metropolitan Transit Authority.

Prior to August 2, 1949 an account entitled "Unamortized Discount and Expense less Premium" had been carried on the books of the Authority, and each year a sufficient amount had been written off to the "Cost of Service" to amortize the account over the lives of the respective bonds concerned. For the past few years approximately \$80,000.00 had been amortized annually in this way, leaving a balance in the account prior to the August 2, 1949 closing of \$931,538.79.

Referring to the statement "Income and Cost of Service" for the period of January 1, 1949 to August 2, 1949, as shown in the third annual report of the Authority, it was noted that the entire amount of \$931,538.79 had been charged to the "Cost of Service" under the caption of "Discount and Expense less Premium on Funded Debt Written off".

It is the opinion of this department that the charging of this amount, namely, \$931,538.79 to an accounting period of only seven months is not justified. In this connection, it is noted that a reputable concern of Certified Public Accountants on December 28, 1949, with direct reference to a request for an accounting opinion from the Metropolitan Transit Authority as to the proper handling of this item in particular, stated:

"The disposition of unamortized discount and expense, less issue premium on the old funded debt, however, required, special

consideration. It was our conclusion that the Authority under good accounting practice, had the option either (a) of writing off the entire amount of unamortized discount and expense, less issue premium as of August 2, 1949, or (b) of continuing amortization after August 2, 1949 ratably over the maturities of the respective old issues (but not over the life of the new bond). . . ."

Attention is called to the fact that during the period from August 29, 1947 to December 31, 1949, approximately \$28,000,000.00 of Debt Reduction has been credited to "Reserve for Depreciation", and it would seem only proper that if "Reserve for Depreciation" is to be credited with Debt Reduction, this item of "Unamortized Discount and Expense" should be charged against it and should not be charged to the cost of service.

In this connection, it is desired to call your attention to the fact that on August 3, 1949, in accordance with the provisions of Section 7A of Chapter 544 of the Acts of 1947, as inserted by Section 2 of Chapter 572 of the Acts of 1949, fifteen outstanding bonds of the Boston Elevated Railway Company and of the Metropolitan Transit Authority issued to the Boston Metropolitan District totaling \$97,931,917.00 were cancelled and a new bond for \$71,418,371.89 issued to the Boston Metropolitan District, the difference represents the amount by which the debt of the Boston Metropolitan District had been reduced or funds provided for to August 2, 1949.

It would not appear that the swapping of several pieces of paper for one piece actually wiped out the debt. As a matter of fact, the Boston Metropolitan District had just as much outstanding debt on August 3 as it had on August 1. The bonds of the Boston Metropolitan District had in no way been reduced or cancelled.

It is also desired to call to your attention the fact that the deficit of \$6,896,549.53 reported by the Metropolitan Transit Authority for the period of January 1, 1949 to August 2, 1949 includes, of course, the amount \$931,538.79 previously described in this letter as being written off to the cost of services, and that the Authority on October 24, 1949 received from the State Treasurer a check for \$6,896,549.53.

It is recommended that to adjust this item, when the deficit for the period of August 3, 1949 to December 31, 1949 is reported, it be reduced by the amount of \$931,538.79.

Very truly yours,

/s/ Thomas J. Buckley
Auditor

On May 9, 1950, the following reply was received from the Chairman of the Department of Public Utilities:

(COPY)

May 9, 1950

Mr. Thomas J. Buckley, Auditor
The Commonwealth of Massachusetts
State House, Boston 33.

Dear Sir:

Reference is made to your letter dated April 13, 1950, relative to the procedure followed by the Trustees of the Metropolitan Transit Authority in the disposition of \$931,538.79 representing an account entitled "Unamortized Discount and Expense less Premium."

Please be informed that the practice followed by the Trustees in this instance is consistent with and justified by the provisions of the Uniform System of Accounts for Electric Railways and, consequently, this Department has no cause to take issue with the Trustees in the matter.

In this connection may I call your attention to the observations of relative to this proposition as contained in their letter to the Trustees dated December 28, 1949. These auditors stated: "If the cost of service after August 2, 1949 were to be charged with amortization of debt which had already been retired and cancelled, the Trustees might have been subject to criticism on the grounds that such treatment was contrary to the spirit of Chapter 572. The write-off of

the balance of unamortized debt discount and expenses, less issue premium on the old debt as of August 2, 1949, to be charged to the cost of service in the period from January 1, 1949 to August 2, 1949, appeared to be the preferable treatment."

Relative to your recommendation that the deficit, if any, for the period August 3, 1949 to December 31, 1949, be reduced by the amount of \$931,538.79, please be advised that this is not a subject for this Department to consider, since our approval is not required on any such report submitted to the Treasurer and Receiver General of the Commonwealth under the Act.

Very truly yours,

/s/ Thomas A. Flaherty
Chairman

Attention is directed to the fact that the Chairman of the Department of Public Utilities is being inconsistent with previous rulings of his department. Attention is directed to the following D. P. U. Order, No. 4900-A, issued on December 4, 1934, when under almost identical circumstances the Department of Public Utilities ordered the then Boston Elevated Railway to amortize unamortized discount on a similar bond issue over the lives of the new securities issued to replace them.

(COPY)

December 4, 1934

(D. P. U. 4900-A)

Petition of Boston Elevated Railway Company for authority to amortize part of discounts and expenses and the call premium on bonds which may be called for payment on February 1, 1935, through a period subsequent to said date.

This is a petition of the Boston Elevated Railway Company which requests the Department to authorize the company to amortize the unamortized discount and expenses and the call premium on six million three hundred and nine thousand (\$6,309,000) dollars face value of six and one-half per cent, (6 1/2%) sinking fund bonds which the company may call for redemption on February 1, 1935 over the interval between February 1, 1935 and the maturity of bonds which the company may issue and sell to the Boston Metropolitan District as authorized by the Department in an order of even date herewith, under and in accordance with the provisions of chapter 334 of the Acts of 1934.

The apparent legislative purpose in authorizing the Boston Elevated Railway Company to sell bonds to the Boston Metropolitan District for the purpose of calling and refunding the outstanding six and one-half per cent. (6 1/2%) sinking fund bonds was to permit the company to effect savings in the cost of service over the life of the bonds to be sold the District. It is consistent with this purpose that the unamortized discount and expenses and the call premium arising out of the issue and call of the six and one-half per cent (6 1/2%) sinking fund bonds should be amortized over the period between February 1, 1935 and the maturity of bonds which may be substituted for said sinking fund bonds under authority of said chapter 334.

Accordingly, after notice and hearing, - it is

ORDERED, That if the Boston Elevated Railway Company shall issue and sell to the Boston Metropolitan District bonds of the face value of six million three hundred and nine thousand (\$6,309,000) dollars as authorized by the Department in an order of even date herewith, under and in accordance with the provisions of chapter 334 of the Acts of 1934, for the purpose of calling for redemption and for paying or redeeming and refunding two issues of outstanding six and one-half (6 1/2%) per cent sinking fund bonds totalling six million three hundred and nine thousand (\$6,309,000) dollars, and shall call said sinking fund bonds for redemption on February 1, 1935, the Boston Elevated Railway Company is hereby authorized, so far as the Department has authority with regard thereto, to amortize over the interval between February 1, 1935 and the date of the maturity of the bonds to be sold to the District as aforesaid, the sum of two hundred and ten thousand five hundred and eighty-six dollars and fifty cents (\$210,586.50), being the amount of the discount and expenses arising out of the issue of said two issues of six and one-half (6 1/2%)

per cent sinking fund bonds which will be unamortized on February 1, 1935, and the sum of three hundred and fifteen thousand four hundred and fifty (\$315,450) dollars, being the amount of the call premium on said two issues of six and one-half (6 1/2%) per cent sinking fund bonds which the company will be required to pay on that date.

(SEAL)

By order of the Department,
/s/ Allan Brooks,
ADMINISTRATIVE SECRETARY

A true copy.

Attest:

/s/ Allan Brooks
Administrative Secretary.

It would not appear that the swapping of several pieces of paper for one piece actually wiped out the debt. As a matter of fact, the Boston Metropolitan District had just as much outstanding debt on August 3 as it had on August 1. The bonds of the Boston Metropolitan District had in no way been reduced or canceled.

It is recommended that this item be adjusted by reducing the deficit for the period of August 3, 1949 to December 31, 1949 by the amount of \$931,538.79.

In this connection, it was noted that from August 29, 1947 to December 31, 1949 over \$5,000,000.00 on account of debt reduction has been transferred from "Unearned Surplus" to "Reserve for Depreciation," and it would seem only just and fair to the fourteen cities and towns in the District that the amount of \$931,538.79 necessary to adjust this item be transferred back to "Unearned Surplus." This would remove this item from the accounts of the Metropolitan Transit Authority without unjustly penalizing the taxpayer.

(e) Depreciation: From the earliest days of the Boston Elevated Railway dating back to 1894, the management of the Railway has manipulated the item of depreciation to suit their own purposes; first, under private ownership, as demonstrated by our previous audit report, to pay unearned dividends to an extent that finally wrecked the private Corporation; secondly, under public control to add unnecessarily to the deficits assessed upon the taxpayers by using the "Reserve for Depreciation" for items other than those which would normally be found in this type of account in any accepted accounting system, and as a matter of record, these reserves were frequently charged during the period under public control with losses incurred under private ownership, and today, under public ownership, the amounts charged to the cost of service, in some instances in violation of accepted accounting practices, have been in excess of normal needs, and have resulted in accumulation of huge cash balances.

While in its last report this Department stated that an inadequacy existed in the "Reserve for Depreciation" amounting to more than \$38,000,000.00, today we have no opinion as to the adequacy of this reserve, since under public ownership the reserve itself is no longer important. Recent legislation has provided that the cost of major replacements will be provided from bond issues and therefore no reserve is necessary for purchase of passenger carrying equipment and tunnel construction.

Attention is directed to the fact that at the time the Railway was acquired from the private Corporation on August 29, 1947, the then Trustees of the Railway continued to carry the assets of the Railway at the cost to the Boston Elevated Railway, not at the new cost to the Metropolitan Transit Authority. W. A. Paton's Accounting Handbook, Third Edition, page 719, in referring to the treatment of used property, states:

"Where property is acquired in a used or secondhand state the actual cost in cash or equivalent is generally the proper basis for depreciation, regardless of the previous history of the property. ..."

Referring to the same subject, the Handbook goes on to state:

"In reorganizations and mergers, particularly in the utility field, the old accounts, with any necessary adjustments, often form the basis of the new records. This is not undesirable if the transaction is of a nominal character, involving no essential break in the continuity of the enterprise, but where there is a genuine transfer between independent parties - an outright change in ownership - attention should be focused on the cash cost of the property and previous records should be ignored."

If this practice had been adopted, the following would have resulted:

Cost of Fixed Assets - August 29, 1947

Cost of Fixed Assets to Boston Elevated Railway Company		<u>\$111,532,227 12</u>
Cost of Fixed Assets to Metropolitan Transit Authority		<u>\$71,729,228 90</u>
Book Value of Fixed Assets	\$111,532,227 12	
Less Reserve for Depreciation(Adjusted)	<u>39,802,998 22</u>	<u>\$71,729,228 90</u>

Determination of Cost of Depreciable Assets Excluding Buses and
Trackless TrolleysAs of August 29, 1947

Cost of All Fixed Assets			\$71,729,228 90
Buses:			
Cost	\$6,204,948 23		
Less Reserve	<u>3,372,353 08</u>	\$ 2,832,595 15	
Trackless Trolleys:			
Cost	\$2,218,089 05		
Less Reserve	<u>991,817 27</u>	1,226,271 78	
Land, Track, Etc.		20,482,034 13	
Work in Progress		538,314 19	
Misc. Physical Property		228,317 69	
Advances for Road and Equipment on Leased Roads		<u>231,530 98</u>	<u>25,539,063 92</u>
Cost of Depreciable Assets to Metropolitan Transit Authority			<u>\$46,190,164 98</u>

Following public purchase, the value of the depreciable assets of the Metropolitan Transit Authority could, therefore, have been established at \$46,190,164.98, and would as a consequence have resulted in a substantial reduction in the amount reserved each year for depreciation under public ownership. This Department, however, is strongly of the opinion that the depreciable assets should be further reduced by \$17,893,974.71, since this amount represents the value of elevated structures and stations which the General Court has ordered torn down and replaced with tunnels. One of the main purposes for creating a "Reserve for Depreciation" is to provide funds for replacement of the particular items which are being used, and the legislation, in ordering the removal of these structures, has authorized the Metropolitan Transit Authority to borrow money for construction of the tunnels which are to replace them. Further charges to the cost of service for replacement of elevated structures is entirely unnecessary and an unwarranted burden placed upon the taxpayer and can only result in adding to the cash balances of the Railway.

It would appear that in the interest of ordinary effective bookkeeping a complete listing and reappraisal of depreciable property should be made as of a given date, and that in the future, following this inventory and reappraisal, further depreciation should be accrued only on those items which the Metropolitan Transit Authority will eventually be called upon to replace from their own funds.

The cost of service is now being charged approximately \$25,000.00 per month to provide funds for replacement of the present elevated structures. In the event that this recommendation for a reappraisal of the depreciable assets of the Railway is not followed, this Department recommends that a reduction of \$25,000.00 per month in the amount reserved for depreciation be effected immediately, retroactive to August 2, 1949, since the legislation to remove the elevated structures was adopted during that month. This will eliminate further replacement charges from the cost of service for elevated structures which will not be replaced, and reduce the deficit for the last five months of 1949 by approximately \$125,000.00. This adjustment should be made by deducting this amount from the deficit now reported for the last five months of 1949.

(f) East Boston Rapid Transit: Included in the properties acquired from the City was the so-called extension of East Boston Rapid Transit facilities, for which purpose the City had borrowed \$5,950,000.00 and of which \$61,153.03 remained unexpended on August 3, 1949, and which was included in the \$288,411.07 paid by the City to the Authority. To continue this construction, the Authority subsequent to August 3, 1949 borrowed \$7,650,000.00, of which \$1,748,025.93 had been expended to December 31, 1949. The Third Annual Re-

port of the Trustees of the Metropolitan Transit Authority, referring to the East Boston Tunnel Extension, states:

"Construction of the East Boston Tunnel Extension from Maverick to Orient Height Stations is now 60% completed. Expectations are that it will be opened to the public not later than midsummer 1951. In the interest of efficiency and economy, most of the remaining work will be let out on contracts."

In connection with the checking of "Special Deposits" covering the East Boston Extension and "Unfinished Construction" relative thereto, it was noted that expenditures of \$69,759.98 had been made to December 31, 1949 for projects other than the East Boston Extension and for which funds had not been provided, as follows:

Shawmut Ave. Subway - Survey	\$47,783 06
Atlantic Ave. Station - Installation of moving stairways, etc.	19,382 14
Dorchester Rapid Transit Extension - Fields Corner and Geneva Ave., incline, etc.	717 68
Massachusetts Station Surface - alterations account of trackless trolleys	1,875 55
Land Purchases, etc., for off-street parking facilities	1 55
	<u>\$69,759 98</u>

It was explained that, as this was the only appropriation with funds available, all items as enumerated above were charged thereto.

Later when funds are made available for the items shown, the expenditures will be transferred and this account reimbursed.

This method of expenditure before funds are available was comparable with the procedure in the City of Boston Transit Department.

It was understood that when funds for these projects are provided, the expenditures mentioned above will be transferred to them in accordance with Section 2 of Chapter 269 of the Acts of 1950, which reads as follows:

"Section 6 of said chapter 649 is hereby amended by striking out the first sentence and inserting in place thereof the following sentence:- For the purpose of providing funds for, or of restoring to the treasury of the authority funds expended for, the purposes of this act, which purposes shall include the preparation of plans and estimates of cost with reference to any subway or tunnel addition authorized by this act, and for the purpose of refunding again and again bonds issued under this act, the authority shall from time to time issue to the district bonds of the authority for such terms and bearing such rates of interest as are hereinafter provided."

A study of land takings in connection with the East Boston Tunnel Extension included a review of the minutes of the Board of Trustees of the Authority to see that statutory requirements were complied with. In every instance it was found that the holder of the fee was notified in writing of the taking, and that he was awarded damages of one (\$1.00) dollar. This is but routine procedure in these cases of land takings under eminent domain proceedings, and the final determination of damages may be arrived at by agreement between the parties or by determination of the courts. At present, the Legal Department of the Authority is negotiating with the former owners in cases where final determination of damages may be reached by agreement.

There have been two types of land takings: one to meet the needs of the extension of the tunnel, as authorized by Chapter 692 of the Acts of 1945 as amended by Chapter 494 of the Acts of 1946, and as affected by Chapter 572 of the Acts of 1949, and Chapter 79 of the General Laws - and the other for relocation purposes as prescribed by Chapter 191 of the Acts of 1949. This Act empowered the City of Boston to provide funds not exceeding \$250,000.00 for the acquisition of vacant lands and the removal thereto of such houses as was practicable - that is, houses that have been or were to be taken under eminent domain proceedings in connection with the East Boston Tunnel. Normally, these houses would have been razed, but in view of the critical housing shortage, the Legislature provided this means of mitigating the hardships that might be caused by this activity. Since the

Authority has assumed all functions of the City of Boston in connection with the East Boston Tunnel Extension, under Chapter 544 of the Acts of 1947 as amended by Chapter 572 of the Acts of 1949, any work done by the Authority in connection with the relocation of these homes and the acquisition of vacant lands for relocation purposes is as agent for the City of Boston.

As of December 31, 1949, plans call for the relocation of not more than twenty-six houses. These houses are primarily of wood frame construction, and it has been deemed practicable to move them. In other instances where existing structures on taken land are to be torn down, they are either of brick (impracticable to move) or of such unsound condition as not to be able to withstand moving. Lots to which these houses are to be moved have already been acquired by eminent domain proceedings by the Authority as agent for the City of Boston in the same manner as the other land takings - and the necessary relocation plans are ready, awaiting the proper time for the initiation of the activity.

These houses when relocated are to be sold in one of three ways: to the former owner, former tenant, or by public auction, under Chapter 191 of the Acts of 1949. If sold to the former owner or tenant, the price is to be the cost of removal plus the price of the new lot - or the approximate cost of the original acquisition, whichever is the greater. If by public auction, then of course to the highest qualified bidder.

There is in the area a group of land takings from going business firms and a firm with extensive property holdings. From this latter firm were taken several large tracts of vacant land, much of which consisted of the right of way of an abandoned railroad and abutting land. Of the two business firms involved, one presents no serious problem as the taking predominantly involves vacant land and it does not appear that any structure will be disturbed to any great extent. But the taking from the other, a going printing concern, involves a taking which appreciably disturbs its buildings and, undoubtedly, eventually will result in substantial damages.

There are a number of land takings of portions of lots. Where the needs of the tunnel extension did not require the whole parcel of land, it took only such portion as was necessary. In this class of taking, it was possible to avoid disturbing any houses on the land.

In addition to these land takings which are in fee, there has been another type of taking called a leasehold taking. These leasehold takings, so-called, were necessary for temporary tunnel construction purposes - entrance, egress, access to tunnel, etc. In some cases it may have been necessary to disturb cellar or foundation as well as use under or over the land. The Engineering Department of the Authority has indicated that these particular structures will be restored to at least as good condition as before. These particular takings were under statutory powers in the same manner as the other takings, except that they were for three month periods to meet the temporary needs of the construction of the tunnel extension, and will expire when these needs cease. Nominal damages of one (\$1.00) dollar were awarded at the time. The problem of what damages, if any, the owners of these properties may be entitled to remains, but they are not expected to be substantial.

(g) Operating Expenses: The Third Annual Report of the Trustees of the Metropolitan Transit Authority includes on page 5 the following statement:

(COPY)

The Interim Board of Trustees has reduced operating costs by \$1,044,740 in all the 11 months, February 1 to December 31, 1949, as compared to the same period in 1948. After necessary adjustments to make the two periods comparable, the table below indicates these savings.

Decrease in operating payroll	\$ 375,550.18
Increased by wage rates which became effective in 1949, but which were not in effect in 1948	492,136.00
Total savings upon comparative basis	867,686.18
Reduced by difference in wage cost for snow removal on account of severe winter in 1948 as compared to winter of 1949	84,531.20
Net wage decrease	783,154.98
Decreased fuel costs	311,939.72
	\$1,095,094.70

(Continued)

Reduced by increased cost for materials
(exclusive of costs for materials used
in snow removal)

\$ 50,353.99

Net savings, 11 months, on comparable
basis

\$1,044,740.71

The Trustees herein have again attempted to turn figures to their own advantage to demonstrate savings that are not real, viz: they have added to their claimed savings an amount of \$492,136.00 which was actually paid out in 1949 as salary increases. We fail also to find any savings in the \$50,353.99 deducted as "increased costs." The Trustees' reasoning is rather extended when actual expenditures are claimed as savings. By properly applying these expenditures to their own calculations, the reported saving of \$1,044,740.71 drops to \$502,250.72.

The savings in fuel reported as \$311,939.72 resulted from a reduction in transportation service to the District and from conversion of power plants from coal to oil.

Attention is directed to the fact that the South Boston Power Station was converted from coal to oil on January 25, 1949 and the Lincoln Power Station on October 6, 1949. The savings reported by the Trustees are clouded by the fact that in converting from coal to oil, the Railway, as a result of bad planning by the same Trustees, continued to purchase and accumulate coal until on December 31, 1949 the Metropolitan Transit Authority had on hand 57,359 tons of coal valued at \$704,475.97. It is worthy of comment that, despite this tremendous inventory of coal, during the month of November 1949, (to cite an example) the road consumed only 1,465 tons of coal. On the basis of this consumption, the road had on hand on December 31, 1949 more than a three-year supply of coal.

While it is true that this large coal reserve proved useful during the acute coal shortage of the past winter and the Trustees were saved an embarrassing situation by disposing of a major part of this reserve, the fact still remains that the Trustees under ordinary planning should have anticipated conversion from coal to oil and cut down on their purchases of coal to prevent the accumulation of such a large reserve. Once having accumulated such a large reserve, in view of the fact that both power stations are capable of burning either coal or oil, it is debatable economy to convert to oil, and, at the same time, leave idle a \$700,000.00 coal pile, with the consequent expense of maintaining and caring for it, without even considering the substantial funds tied up in such a reserve.

(h) Engineering Services and Expenses in Prior Years Charged to Operating Expenses in 1949: It was noted that a total of \$18,193.84 which had in prior years been charged to Construction Work in Progress was in 1949 closed out to Operating Expense. The detail making up the \$18,193.84 follows:

<u>Work Performed In</u>	<u>Project</u>	<u>Cost</u>	<u>Charged to Operating Expenses</u>
1946	Conversion to trackless trolleys	\$ 500 16	March 1949
1937			
1940	Filling Land	725 54	July 1949
1942			
1947			
1946	Proposed Addition to		December
1947	Fellsway Garage	16,968 14	1949
		<u>\$18,193 84</u>	

It is difficult to understand why charges in prior years to Construction Work in Progress should be closed out to Operating Expenses in 1949.

(i) Reserve for Injury and Damage Claims: It was noted that the balance in this reserve was \$1,284,104.48 as at December 31, 1947 and \$1,606,532.22 as at December 31, 1949. The reserve was discussed with the General Attorney and with the Comptroller. The Comptroller furnished the following information showing how the estimate was determined:

Superior Court Suits Outstanding:
1906 @ \$600.00

\$1,143,600 00

Municipal and District Court Suits:

January 1, 1948 to December 31, 1949 686 @ \$200.00	\$ 137,200 00
January 1, 1946 to December 31, 1947 254 @ \$75.00	19,050 00
Claims outstanding suit not entered	300,000 00
	<u>\$1,589,850 00</u>

The amount reserved reflects directly in the cost of service, and it is recommended that such reserve be held to a minimum.

(j) Interim Board of Trustees: On January 19, 1949 after the resignation of all the members of the Board, the Governor appointed, apparently on a temporary basis, a Board composed of the General Manager of the Authority, the Comptroller of the Authority and three others; one of the three others was designated Chairman. The members served without salary.

It was noted that the Chairman resigned on September 6, 1949 and the minutes of the meetings of the Trustees under date of September 28, 1949 includes the following:

"Voted: That in the event of arbitration in connection with changes in the agreement between the Authority and the Amalgamated Association of Street Electric Railway and Motor Coach Employees of America and Division 589 thereof, Edward Dana, General Manager, be authorized to appoint as the arbitrator to be appointed by the Metropolitan Transit Authority."

It was noted that under date of December 28, 1949 the former Chairman rendered a bill to the Authority reading as follows:

"For services as Arbitrator in connection with the negotiation and arbitration of contract dispute between Metropolitan Transit Authority and Amalgamated Association of Street Electric Railway and Motor Coach employees of America, Division 589.
For Services \$12,000.00"

It was noted that the minutes of meetings under date of December 28, 1949 includes the following:

"Voted: To authorize payment of the bill of _____ Esquire, in the sum of \$12,000.00 for services rendered as arbitrator for the Authority in connection with arbitration proceedings with the Amalgamated Association of Street, Electric Railway and Motor Coach Employees of America and Division 589 thereof."

It was also noted that a check dated January 4, 1950 drawn on the Second National Bank was issued to the former Chairman.

It was further noted that the Trustees continued to serve without compensation until November 1, 1949 when two of them were placed on the pay roll, the Chairman at the rate of \$7,500.00 and a member at the rate of \$6,000.00 a year. The third member as recently as April 1, 1950 was still serving without compensation.

(k) Salaries of Certain Officers: It was noted that effective October 1, 1949 the salaries of the following officers were decreased voluntarily:

	<u>From</u>	<u>To</u>
General Manager	\$32,000 00 a year	\$27,500 00 a year
Treasurer	25,000 00 a year	20,000 00 a year
General Counsel	20,000 00 a year	18,000 00 a year
General Attorney	18,000 00 a year	17,000 00 a year

(l) Comparison of Salaries and Wages to Expenses: The relative importance of salaries and wages to total operating expenses is shown by the following:

	1949	1948
Salaries and Wages	\$26,853,565 08	\$26,942,286 35
All Other Expenses	11,631,994 97	12,023,130 42
	<u>\$38,485,560 05</u>	<u>\$38,965,416 77</u>

An analysis of salaries and wages for the two years concerned follows:

	1949	1948
Rolling Stock and Shops		
Dept. Labor	\$ 4,185,928 97	\$ 4,311,005 94
Maintenance Dept. - Labor	3,294,805 82	3,521,362 25
Power Dept. - Labor	1,551,127 76	1,430,595 78
Car Station and Miscellaneous		
Employees - Surface Line - Labor	10,819,181 28	11,105,398 16
Train Station and Miscellaneous		
Employees - Rapid Transit		
Lines - Labor	3,482,430 51	3,580,805 13
General Offices - Labor	1,131,347 81	1,129,087 72
General Offices - Monthly Pay Roll	780,801 04	776,459 09
Estimated Vacation Allowance - Labor	994,625 47	924,929 64
Snow Laborers' Pay Roll - Labor	2,460 00	64,583 75
Other (Back Pay - Adjustments, Etc.)	610,856 42	98,056 89
	<u>\$26,853,565 08</u>	<u>\$26,942,286 35</u>

(m) Concessions: For the calendar year 1949, the Metropolitan Transit Authority reported income from various concessionaires totaling \$1,070,937.78. In view of the fact that in most instances the income due the Metropolitan Transit Authority from these sources is based on a percent of the revenue of the concessionaire, this Department considered it advisable as a part of this audit to determine that all income due the Metropolitan Transit Authority was being collected.

In practically every instance the contract between the concessionaire and the Metropolitan Transit Authority includes a clause which provides that the accounts of the concessionaire are subject to audit by -

"The Authority and its officers and duly designated representatives..."

The Trustees of the Metropolitan Transit Authority were requested to name the Department of the State Auditor as other "duly designated representatives" in order that these concessions might be audited and the Trustees refused.

Immediately thereafter, the opinion of the Attorney-General in this matter was sought by this Department and on March 15, 1950 the following opinion was received:

(COPY)

March 15, 1950

Hon. Thomas J. Buckley
State Auditor

Dear Sir:

You have recently asked Attorney General Francis E. Kelly for an opinion interpreting the effect of the law under the circumstances hereinafter described. Your request has been turned over to me for research and study. I do not think a formal opinion is required, but in order to assist you in the performance of your duties I will advise you informally.

You state that you are currently examining the accounts of the Metropolitan Transit Authority to determine whether all the income due said Authority has been recorded or collected; and you find that said Authority has entered into contracts with about fifteen concessionaires under which certain leases have been granted and which have in every case guaranteed said Authority a minimum rent or a percentage of the concessionaire's gross business, whichever is greater. You also state that each of these contracts contains the following clause:

"The Authority and its officers and duly designated representatives shall have the right to verify any of the said statements (books, records and memoranda) by an examination under oath of the contractor's accounting or other duly authorized officers having charge of such books, records and memoranda; and the contractor hereby agrees that it will whenever required by the Authority submit and will require all its officers, agents and employees to submit to such examination and produce such books, records and memoranda as may be requested."

Briefly this clause provides: (1) The Metropolitan Transit Authority, or its representatives, may interrogate under oath the officers of the contractor in charge of the latter's books and records; and (2) the contractor shall produce for examination such books and records as may be requested.

You wish to know whether you may demand that the Metropolitan Transit Authority designate the Department of the State Auditor as its representative under said clause.

General Laws (Ter. Ed.) C. 11, Par. 12, imposes a duty upon the State Auditor as follows:

"The department of the state auditor shall annually make a careful audit of the accounts of all departments, offices, commissions, institutions and activities of the commonwealth, . . . and for said purpose the authorized officers and employees of said department of the state auditor shall have access to such accounts at reasonable times and said department may require the production of books, documents and vouchers, except tax returns, relating to any matter within the scope of such audit . . ."

St. 1947, c. 544, creating the Metropolitan Transit Authority, provided in section 12 that the Department of Public Utilities shall annually audit the accounts of the Authority and report same to the Trustees and the Governor and Council. By implication, 'if not by express language, the Department of the State Auditor was thus denied any jurisdiction over the Authority.

By St. 1949, c. 675, however, the Legislature amended said section 12 and specifically provided as follows:

"The department of the state auditor shall annually make an audit of the accounts of the authority and make a report thereon to the trustees, the governor and council and the general court. In making said audits, said department of the state auditor may call upon the department of public utilities and other departments, commissions, officers and agencies of the commonwealth for such information as may be needed in the course of making such audits."

The object of all statutory construction is to ascertain the true intent of the Legislature from the words used in the light of the main object sought to be accomplished by the enactment. *Lehan v. North Main Street Garage*, 312 Mass. 547. *Meunier's Case*, 319 Mass. 421.

If reasonably practicable a statute is to be explained in conjunction with other statutes to the end that there may be an harmonious and consistent body of law. *Morse v. Boston*, 253 Mass. 247, 252. *Kelley v. Jordan March Co.*, 278 Mass. 101, 111.

In making your audit it is your duty to be reasonably thorough in order to determine whether all moneys due the Metropolitan Transit Authority have been duly recorded or collected. To achieve this result it will be necessary to examine and audit the books and records of the above-mentioned concessionaires. The Legislature contemplates that all of its agencies will co-operate with one another in the performance of their official duties so that our governmental machinery will operate in a manner both efficient and untrammelled. Significant in this connection is the biblical injunction: "As ye sow, so shall ye reap." Lack of co-operation among governmental agencies will result in disservice to the public weal.

I am therefore of the opinion that (1) the Metropolitan Transit Authority should designate the Department of the State Auditor as its representative to interrogate under oath a concessionaire as to the accuracy of its records, or (2) said Authority should request the concessionaire to produce

its records so that they may be available for examination by the Department of the State Auditor.

Cordially yours,

H. William Radovsky
Assistant Attorney General

This ruling was immediately presented to the Chairman of the Board of Trustees of the Metropolitan Transit Authority and by the following letter, dated March 23, 1950, the Trustees reiterated their refusal to cooperate with this Department.

(COPY)

March 23, 1950

Honorable Thomas J. Buckley,
State Auditor
State House
Boston 8, Massachusetts

Dear Sir:

The Board of Public Trustees of the Metropolitan Transit Authority has given careful consideration to the copy of a letter dated March 15, 1950, sent to you and signed by H. William Radovsky, Assistant Attorney General, which your Mr. Herbert M. Eveleth, First Deputy Auditor, turned over to the Chairman of this Board on Tuesday, March 21, 1950.

This Board sees no reason to change its prior position relative to not designating the Department of the State Auditor as the agent of the Authority for the purpose of either interrogating under oath or examining the records of concessionaires holding contracts with the Authority.

Without emphasizing the fact that Section 3 of Chapter 12 of the General Laws specifically does not apply to the Authority, there is nothing in the informal letter of opinion of the Assistant Attorney General that changes the position of this Board.

You have previously been advised that the Board of Public Trustees will interpose no objection to any interrogation or examination of the books and records of any concession contractor doing business with the Authority, if that concession contractor so agrees. We believe, however, that the office of the Comptroller of the Authority is thoroughly qualified and should be the representative of the Authority in making any examination of the concession contractor's accounting officers, or of his books, records and memoranda which may be necessary to check verified statements given by the concession contractor as to the income or receipts on which his contract payments are based. Any additional audits or interrogations on the part of the State Auditor's Department, in the absence of consent given by the concession contractor, would, in our opinion, subject the concession contractor to examinations and interrogations not contemplated by the contract or by the parties when they entered into their contract.

We further feel that the intrusion of the Department of the State Auditor into the affairs of private concerns doing business with the Authority, and over whom the Department of the State Auditor has no jurisdiction can serve no useful purpose, may breach existing contracts and may in the future tend to discourage responsible private concerns from bidding on Metropolitan Transit Authority contracts.

Your Department has been extended every measure of cooperation in the audit which you have been conducting since last September, and, within proper bounds, will continue to receive such co-operation.

Very truly yours,

/s/ Walter J. Waldron
CHAIRMAN

Following receipt of the Trustees' second refusal, the following letter was forwarded by this Department to the Attorney General on March 27, 1950:

(COPY)

March 27, 1950

The Honorable
Francis E. Kelly
Attorney General of the Commonwealth
State House, Boston, Massachusetts

Dear Sir:

On March 15, 1950 Assistant Attorney General H. William Radovsky, as a result of a written request from this Department, ruled that --

"(1) the Metropolitan Transit Authority should designate the Department of the State Auditor as its representative to interrogate under oath a concessionaire as to the accuracy of its records, or

"(2) said Authority should request the concessionaire to produce its records so that they may be available for examination by the Department of the State Auditor."

A copy of this ruling was presented to Walter J. Waldron, chairman of the Board of Trustees of the Metropolitan Transit Authority, on March 21, 1950, and under date of March 23, 1950 this Department was notified by letter, a copy of which is attached, that the Trustees would not comply with the ruling from your office.

I, therefore, request that you take such legal steps as you may deem necessary to procure for examination by this Department the accounts of the Metropolitan Transit Authority's concessionaires, so far as they relate to income either paid or accrued to the railway.

Very truly yours,
/s/ Thomas J. Buckley
Auditor

The original request of this Department to be designated as the representative of the Metropolitan Transit Authority for the purpose of establishing the income due this public agency from private concessionaires was an entirely normal procedure with established precedents. During the course of audits of the Airport Management Board, this Department has been designated as the representative of that agency and has audited the accounts of private airways to the extent necessary to determine the income due the Board. The Trustees, despite statements included in their letter, know that such an examination would not be an intrusion since no detailed overall audit of these concessions was even contemplated.

This matter, in the interest of completing this report, has been temporarily laid aside, but this Department does not consider the matter ended.

(n) Metropolitan Transit Authority Retirement Fund: This plan was effective as of January 1, 1948 and was the result in the first place of an agreement between the Authority and the Amalgamated Union and has since been extended to other employees. Briefly, the plan provides for the members contributing 5% of their wages or salaries and a contribution of 5% by the Authority. The Retirement Board is made up of seven members.

The question of conducting an examination of the accounts of the Retirement Board was discussed with the Trustees of the Authority who stated that they had not the right to grant permission to make an examination. They advised that the matter be taken up with the Retirement Board. This was done but the Retirement Board refused to grant permission for the audit.

In addition to the contributions to the present Retirement Plan, the Authority is paying pensions to former employees under the old Boston Elevated Railway Company Pension Plan. There were 319 such pensioners in December 1949. A summary of the 1949 and 1948 cost to the Authority for contributions and pensions follows:

	1949	1948
Contributions to present retirement fund	\$1,330,160 00	\$1,021,827 00
Pensions to former employees	164,612 00	185,082 00
	<u>\$1,494,772 00</u>	<u>\$1,206,909 00</u>

6. General (a) Budgeting and Personnel Controls: Section 1 of Chapter 544 of the Acts of 1947 states that the territory within and the inhabitants of certain cities and towns are made a body politic and corporate and a political subdivision of the Commonwealth under the name of the Metropolitan Transit Authority. From this it would appear that the funds of the Authority are in the category of public funds.

It is a generally accepted principle that the handling of public funds should be subject to budgetary and personnel controls exercised by some agency other than the one responsible for the expenditure of the funds. It is, therefore, recommended that some arrangement be made to provide external budgetary and personnel controls. The ideal method would be to have such controls exercised by representatives of the fourteen cities and towns who own the Authority. In this connection, it is recommended that consideration be given to the advisability of reviving the Metropolitan Transit Council, which consisted of the Mayors and Chairmen of the Boards of Selectmen of all the cities and towns in the District, which Council was abolished by Section 8 of Chapter 572 of the Acts of 1949, and placing with this Council final authority over the operations of the Railway. This is an entirely logical recommendation. Much of the difficulties with the Metropolitan Transit Authority and its predecessor the Boston Elevated Railway can be attributed to the fact that legislation enacted with regard to the Railway has been adopted over the protest of representatives and senators from the Boston Metropolitan District itself who were outvoted by General Court members outside the District who had no particular interest in the ultimate effects of such legislation, so long as it did not affect their own districts.

(b) Gasoline Tax: It was noted that the Metropolitan Transit Authority pays to the Commonwealth approximately \$170,000.00 per year in gasoline taxes. When Chapter 572 of the Acts of 1949 was originally discussed, the Legislature refused to accept the section of the bill which provided exemption from gasoline taxes to the Metropolitan Transit Authority.

It is recommended that this amendment be again offered to the Legislature for reconsideration. The Metropolitan Transit Authority is a public agency, operated by a political subdivision of the State, and further consideration should be given the fact that of all the miles operated by the Metropolitan Transit Authority buses, only a fraction of such mileage is performed on State highways for which the major part of the revenue from gasoline taxes is expended.

(c) Erection of an Office Building: For the use of office space in the Park Square Building for the 1949 calendar year, the Authority paid as follows:

Rent	\$80,362 00
Electricity	9,882 62
Porter Labor	506 40
Overtime	130 00
Installations	180 75
	<u>\$91,061 77</u>

Under the terms of their present lease, the rental paid by the Metropolitan Transit Authority will be increased approximately 7% during the year 1951.

In view of the fact that the Authority is now exempt from real estate taxes (Statute 1949, Chapter 572, Section 6), substantial savings could result from erection of a building to house the main offices of the Metropolitan Transit Authority.

(d) Lease of Certain Lines from Eastern Massachusetts Street Railway Company: It was noted that an agreement was entered into under date of February 16, 1903 between the Old Colony Street Railway Company, Successors and Assigns and the Boston Elevated Railway Company, Successors and Assigns whereby certain lines were leased to the Boston Elevated Railway Company for a term of 99 years to commence July 1, 1903. This lease was authorized by Chapter 388 of the Acts of 1902.

There have been several supplemental agreements and under the terms now in effect the Authority pays annually to the Eastern Massachusetts Street Railway Company a sum equal to 6 1/3% upon the adjusted replacement value and a sum equal to 4% upon the adjusted value of betterments from time to time. The Authority also pays to the Railway annually a certain portion of the Corporate Franchise Tax paid by the Company to the Commonwealth. The method of computing this portion was provided in a supplemental agreement dated November 29, 1929.

During the 1949 calendar year the payments by the Authority to the Railway were as follows:

Rental of Property under Lease:

Six months ended April 30, 1949	\$16,445 28
Six months ended October 31, 1949	<u>16,445 28</u>
	\$32,890 56

Massachusetts Corporate Franchise

Tax applicable to West Roxbury

Property Lease

6,878 89
<u>\$39,769 45</u>

It was noted that the net franchise tax paid by the Eastern Massachusetts Street Railway Company to the Commonwealth in 1949 was \$77,773.14 and that the portion of this tax paid by the Authority to the Railway amounted to \$6,878.89 or roughly 8% of the tax paid by the Railway. It is worthy of comment that the lines leased cover only eleven miles of right of way and that the total one-way miles of right of way of the entire Eastern Massachusetts Street Railway in Massachusetts on December 31, 1948 amounted to approximately 700 miles. The Metropolitan Transit Authority is obviously paying more than its proper share of the franchise tax of the Eastern Massachusetts Street Railway Company.

Apparently the Authority recognized that this lease was expensive and from correspondence and memoranda in the files it would appear that in the spring of 1949 the Authority tried to negotiate with the Eastern Massachusetts Street Railway Company for the purchase of the property offering as high as \$600,000.00 as a basis of settlement, but to April 1, 1950 no basis of settlement had been reached.

Attention is directed to the fact that the Eastern Massachusetts Street Railway Company is permitted to use free of charge the Metropolitan Transit Authority facilities at Ashmont, Everett, Forest Hills, Sullivan Square, Arborway and Mattapan, while at Fields Corner the Eastern Massachusetts Street Railway Company pays to the Metropolitan Transit Authority 7 1/2¢ for each bus using that tunnel under a minimum rental arrangement amounting to \$2,298.12 per year. The argument might well be raised that the use of these facilities brings revenue to the Metropolitan Transit Authority, but attention is also directed to the fact that it is certainly to the advantage of the Eastern Massachusetts Street Railway Company that they be permitted to use these facilities without cost.

(e) Deficits: It was noted that from August 29, 1947 to December 31, 1949 the Authority has received from the State Treasurer in payment of deficiencies the following:

<u>Period For</u>	<u>Date Received</u>	<u>Amount</u>
Year ended March 31, 1941	10/28/47	\$ 2,341,167 29
Nine months ended December 31, 1941	10/28/47	1,311,406 44
Year ended December 31, 1946	10/28/47	787,527 89
Year ended December 31, 1947	6/14/48	711,737 31
Year ended December 31, 1948	3/22/49	8,900,854 77
January 1 to August 2, 1949	10/24/49	<u>6,896,594 53</u>
		<u>\$20,949,288 23</u>

It should be noted that the total of \$4,440,101.62 received by the Authority on October 28, 1947 was on account of deficits incurred under Boston Elevated Railway Company operation.

It should also be noted that the above amount of deficits recovered does not include an amount of \$1,354,292.29 which the Authority states in its Third Annual Report to be the deficit for the period August 3, 1949 to December 31, 1949.

(f) Cambridge Subway: The Cambridge Subway, originally built and owned by the Boston Elevated Railway Company, was sold by the Railway to the Commonwealth of Massachusetts in May 1920, in order to furnish the Railway with cash for rehabilitation of its physical properties. To provide funds for the purchase, and also for the cost of subsequent improvements made on the subway, the Commonwealth has floated three bond issues totaling \$8,229,500.00. The following schedule summarizes the complete transaction:

DETAIL ON COMPUTATION OF PAID AND POTENTIAL RENTAL CHARGES
CAMBRIDGE SUBWAY

Bond Issues of the Commonwealth:

Cambridge Subway, 1920-1970	\$7,868,000 00
Cambridge Subway Improvement, 1924-1974	<u>96,000 00</u>

Cambridge Subway, 1932-1981	265,500 00	
Total Bond Issues		\$ 8,229,500 00
Interest on Bond Issues:		
Cambridge Subway, 1920-1970	\$13,215,495 00	
Cambridge Subway Improvement, 1924-1974	94,240 00	
Cambridge Subway Station, 1932-1981	234,952 74	
Total Interest		13,544,687 74
Total Bond Issue and Interest		<u>\$21,774,187 74</u>
Deduct:		
Paid and Potential Rental Charges:		
Railway Payments through 1949	\$11,752,739 51	
Lessees Rents for Cambridge Subway Property through 1949	65,912 50	\$11,818,652 01
Balance due Common- wealth to Liquidate Principal and Interest	9,955,535 73*	21,774,187 74
Profit to Commonwealth from Cambridge Subway Rents		-

* Balance due from Railway subject to reduction for amounts received by Commonwealth for rent, tolls, etc., on Cambridge Subway Property.

(g) New Construction: Chapter 56 of the Resolves of 1943 provided for an investigation and study relative to rapid transit in the Boston Metropolitan area. The commission created for the purpose was revived and continued by Chapter 85 of the Resolves of 1945. Under Section 9, Item C, of Chapter 544 of the Acts of 1947, the Trustees of the Metropolitan Transit Authority were ordered to make studies and estimates of the costs of removal of the elevated structure and construction of subways in their place. Chapter 649 of the Acts of 1949 finally ordered the removal of the elevated structures and the extension of the Washington Street tunnel to a point beyond Dudley Street.

Attention is directed to the fact that in recent years, despite the obvious intention of the Legislature to remove existing elevated structures, the Trustees of the Metropolitan Transit Authority have spent \$457,287.41 for improvements at the Dudley Street terminal, and the terms of this Act definitely provides for an underground station at Dudley Street. These additions and alterations were not wisely entered upon by the Trustees.

(h) News Stands: Since the last audit it was noted that the Metropolitan Transit Authority had adopted a system of competitive bidding in the letting out of all contracts, and it was noted that during this audit period a contract for construction of thirteen new stands in various Metropolitan Transit Authority stations had been allowed without competitive bidding. The locations and costs of these stands are as follows:

Location	Date Authorized	Contract Price
Park St. Sta., Tremont St. Subway, Northbound	7/29/47	\$ 4,947 00
Park St. Sta., Tremont St. Subway, Southbound	7/29/47	5,709 00
Winter Sta.	7/29/47	5,279 00
Boylston St. Sta., Tremont St. Subway, Southbound	7/29/47	6,140 00
Washington Sta. Concourse	7/29/47	6,136 00
Sullivan Sq. - Surface Car Loading Platform	2/ 3/48	6,478 00
Summer Sta.	2/ 3/48	5,991 00
Harvard Sta. - Inbound Platform	2/ 3/48	4,475 00
Milk St. Sta.	2/ 3/48	5,290 00
Dudley St. Sta. - East Loop	5/20/49	4,857 00

Park St. Under - Center Platform	5/20/49	\$ 5,285 00
Boylston and Essex Stations	8/24/49	10,175 00
Sullivan Sq. Terminal, Southbound Platform	12/ 7/49	5,040 00
		<u>\$75,802 00</u>

(i) Expenditures: The following items selected at random from Metropolitan Transit Authority records total \$28,677.20 and represent income on a ten cent fare from 286,772 passengers. The management should devote itself to an elimination of all similar items in the future.

1. Steel Ties - During the period between October 10, 1944 and August 2, 1946 the Railway purchased 6,163 steel ties at cost of \$23,714.04. Of the total purchased, only 1,439 were ever used, and the balance of 4,724 were disposed of as scrap in December 1949 at a loss of \$16,559.75. If these ties were purchased for experimental purposes, a much smaller amount should have been originally purchased.
2. News Service - A news service (ticker) was maintained in the office of the Treasurer of the Authority at a cost of \$1,500.00 per year. It was stated that such service was needed so that the market could be closely watched for investment of surplus funds of the Authority. It has been many years since the Authority or its predecessor the Boston Elevated Railway has had surplus funds to invest. During the course of this audit, following a discussion with the Railway management, this service was discontinued as of December 31, 1949.
3. Annual Reports - It was noted that the Metropolitan Transit Authority had on hand on October 31, 1949, 7,924 copies of Annual Reports for the years 1947, 1948 and 1949 valued at \$2,212.49, representing approximately 24% of the total originally ordered. More conservative future estimates are indicated.
4. Defective Rails - During 1945 and 1946 the Metropolitan Transit Authority made several purchases of rails at an average cost, including freight, of \$83.10 per gross ton. In a letter dated November 21, 1947 to the Comptroller from the Superintendent of Maintenance, the following penciled memorandum was noted:
 "Defective rail returned at agreed price. The Railway had previous rail defects on H. T. Tee Rail out on line.
 Will not use Heat Treated Rail hereafter."

These rails when returned to the original company from which they were purchased were sold at \$66.00 per gross ton, which represented a loss of \$8,404.96 to the Metropolitan Transit Authority, charged to the "Reserve for Depreciation - Road - Equipment."

7. Summary: The immediate future of the Metropolitan Transit Authority presents no insurmountable problems. The Railway is in an excellent cash position, as is evidenced by the fact that on April 30, 1950 the Authority had on hand \$6,999,037.74 in unrestricted cash. Two recent fare increases will easily maintain this cash, and retirement of the debt of the Authority, under the provisions of Chapter 572 of the Acts of 1949 will henceforth proceed in a lengthy but equitable fashion.

The excellence of the cash position of the Metropolitan Transit Authority is demonstrated by the fact that the Railway for the four months following the last fare increase has not only maintained their balances but had added to them. These balances were as follows:

February 28, 1950	\$6,550,825 17
March 31, 1950	6,844,251 62
April 30, 1950	6,999,037 74
May 31, 1950	6,941,822 75

These balances represent the largest unrestricted cash balances held by the Railway for any considerable period in its entire existence. Although the cash has been added to as a result of the last fare increase, the major portion has been accumulated from overcharges to the cost of service. While the Trustees have in the past argued that the cash position had no significance in the overall financial condition of the Railway, the fact is that the cash position, as a result of recent statutes is the real key to the financial condi-

tion of the Authority, since now all major items of expenditure will be paid for from borrowings. The fact is the Metropolitan Transit Authority has far more funds available than are needed for operating purposes.

All funds of the Authority are public funds, accumulated either through deficit assessments or from fares. It certainly has never been the intention of the General Court that the Authority should accumulate public funds from either of these sources in excess of actual operating needs.

This report recommends a reduction of \$931,538.79 in the deficit of \$1,354,292.29 reported for the last five months of 1949, and a further reduction of \$285,000.00 to compensate the cities and towns of the District for overstated deficits in the period between August 29, 1947 to August 29, 1949, and a further credit of \$125,000.00 to offset excessive charges to the cost of service for replacement of elevated structures which are to be torn down, leaving a balance of \$12,753.50 to be assessed upon the District. This can be accomplished under sound accounting procedures, and certainly the Railway does not require this extra cash.

This Department feels quite strongly that amounts charged to the cost of service to provide a reserve for depreciation have been arbitrary, and, at the same time, unfair to the taxpayer. Acceptance of the recommendations of this report in this regard will place future charges on a sound and equitable basis, and, at the same time, result in a substantial annual reduction to the taxpayer.

This report recommends a refund of between \$1,812,377.44 and \$2,440,101.62 to the cities and towns, the amount depending on the decision of the United States Tax Court. Such a refund will not impair the cash position of the Railway, and the road is already assured of a cash refund from Federal taxes of between \$300,000.00 and \$591,972.56 which will add to the unrestricted cash of the Railway.

Removal of elevated structures will represent a real gain and improvement to the City of Boston, and the Trustees should act without delay in that direction. If a need for further fare increases should arise, it can be attributed to extravagant operations, since the present fare structure will be adequate under an efficient and economical management to meet these costs, providing that the present passenger load is maintained.

The removal of present elevated structures will not produce one added penny of revenue and will add considerably to annual costs of the Railway. While we are of the opinion that present fares will cover this cost, the Metropolitan Transit Authority passenger load can be substantially increased by an extension of rapid transit services to all of the fourteen cities and towns of the District, and such extensions would also prove to be a large factor in relieving traffic congestion in Boston. The ultimate solution to the problems of the Railway lie in this direction, since rapid transit will attract more riders and at lower operating costs will provide speedier and more comfortable passenger service.

TRANSIT MUTUAL INSURANCE COMPANY

REPORT No. 2692

Distribution of Surplus: The affairs of the Transit Mutual Insurance Company are directly connected with operation of the Metropolitan Transit Authority since all of the officers and directors of the Transit Mutual Insurance Company are salaried employees of the Metropolitan Transit Authority. Since December 1947 none of the trustees or employees of the Metropolitan Transit Authority have received a salary for duties performed as officers or directors of the Transit Mutual Insurance Company and in addition, it was voted on January 27, 1949 to abolish the director's fee of five dollars for attendance at regular meetings of the Insurance Company. The only income producing policy written for Workmen's compensation is that of the Metropolitan Transit Authority and policies for general liability insurance are written only to permit the directors and officers of the company to be policyholders as required in the by-laws, and these latter policies are re-insured with another company.

Despite these ties, the Transit Mutual Insurance Company is a separate legal entity. A prior audit report commented on the fact that there was no provision in the by-laws of the company that would return to the Metropolitan Transit Authority a proper proportion of the remaining assets of the corporation in the event of dissolution. Apparently, as a result of that audit report and subsequent correspondence, the policyholders of the Transit Mutual Insurance Company at a special meeting held on September 10, 1947 corrected this condition by voting the following addition to the by-laws:

VOTED: To adopt the following as an addition to the by-laws of this company:

"Distribution of Surplus: In the event of the liquidation of the company, all persons, firms, associations and corporations who within ten years last past before liquidation have been members of the Company, shall be entitled to share in the distribution of the reserve, and

"other assets, after payment of liabilities, ratably in proportion to the amount of premiums paid by them to the Company for insurance."

Reinsurance: Under the present reinsurance contract which became effective April 1, 1949, the company is reinsured on losses over \$25,000.00 up to \$500,000.00 for any one event or series of events. The previous reinsurance contract was more favorable as its limits were from \$10,000.00 to \$250,000.00. However, as the result of a costly accident the reinsurer notified the Transit Mutual Insurance Company that it no longer desired to reinsure the risk at the former rates.

Pension Policy: There was incorporated into the minutes of the Directors' meeting of March 9, 1949 a declaration of policy to assure the present employees of the Company that they would be granted pensions payable in the same manner and in amounts equal to retirement allowances to be received by Metropolitan Transit Authority employees in like circumstances, but equitably reduced because they have made no contributions to any pension fund.

No reserve for the pension fund is to be set up at this time. The reasons for not setting up such a reserve are best given in the following memorandum received from the actuary for the Transit Mutual Insurance Company.

"Memorandum in Re

Pension Policy of the Transit Mutual Insurance Company Voted by Board of Directors March 9, 1949. It is not necessary, in my opinion, to set up

a reserve for pensions at this time because -

The present employees may not be here at the age of 65. They may have died in the meantime. It is permissible for them to retain their positions at the discretion of the Board after reaching the age of 65.

When an employee has reached the age of 65 and

a pension is voted by the Board of Directors, then a reserve shall be set aside for each and every year as voted on by the Board of Directors for the individual who is to receive the pension.

/s/

March 24, 1949

Actuary"

Report to Committee on Self-Insurance: At the Directors' Meeting of June 9, 1948 a committee was appointed to look into all phases of the matter of self-insurance and to make a report to the Board of Directors at a later date. A very exhaustive report to the committee was prepared by the manager of the Transit Mutual, serving ex-officio as a member of this committee. His report discusses the four possible methods of Workmen's Compensation insurance available to the Metropolitan Transit Authority. It explains in detail the advantages and disadvantages of self-insurance by the Metropolitan Transit Authority. The committee reported to the Board of Directors on October 13, 1948 that they were "unanimously of the opinion that it is for the best interests of the Metropolitan Transit Authority and its employees to continue to insure with the Transit Mutual Insurance Company." The Board of Directors then voted to accept the report of the committee.

BOSTON METROPOLITAN DISTRICT

REPORT No. 2635

Audit: The previous audit of the Boston Metropolitan District conducted by the Department of the State Auditor was dated November 16, 1946. The authority of this Department to conduct audits of the Boston Elevated Railway, ceased with the advent of public ownership and creation of the Metropolitan Transit Authority. The recent Legislature has replaced this auditing jurisdiction within the Department of the State Auditor.

This report is being issued in connection with a current audit of the Metropolitan Transit Authority now in progress and covers the period from November 16, 1946, the date of our previous audit, to November 21, 1949, which date coincides with the date of the resignation of the former Treasurer of the Boston Metropolitan District.

Boston Metropolitan District: The Boston Metropolitan District previously known as the Metropolitan Transit Commission was established by Chapter 383 of the Acts of 1929 and the territory within and the inhabitants of the following cities and towns, namely, Arlington, Belmont, Boston, Brookline, Cambridge, Chelsea, Everett, Malden, Medford,

Milton, Newton, Revere, Somerville and Watertown were constituted a district and said territory and inhabitants were made jointly and severally liable for the debts and obligations of the district. The name of the "Metropolitan Transit Commission" was changed to the "Boston Metropolitan District" by Chapter 147 of the Acts of 1932.

Chapter 383 of the Acts of 1929 placed the management of the affairs of the District in a Board of five trustees of whom four are appointed by the Governor and one by the Mayor of the City of Boston.

Chapter 383 of the Acts of 1929 also created the Metropolitan Transit Council, consisting of the Mayors and Chairmen of the boards of selectmen of all cities and towns in the District. This Council was abolished by Section 8 of Chapter 572 of the Acts of 1949.

Statute 1931, Chapter 333; Statute 1932, Chapter 147 and Chapter 299; Statute 1933, Chapter 235; Statute 1934, Chapter 334; Statute 1935, Chapter 451; Statute 1936, Chapter 308; Statute 1937, Chapter 357; Statute 1939, Chapter 510 and Statute 1941, Chapter 567 increased the activities of the Board and it became a financing board issuing bonds of the Boston Metropolitan District to supply money to purchase bonds of the Boston Elevated Railway Company.

1. To retire the preferred stock of the Boston Elevated Railway Company.
2. To provide funds for the Boston Elevated Railway Company to purchase the Chelsea Division of the Eastern Massachusetts Street Railway Company.
3. Thereafter, upon the request of the Boston Elevated Railway Company and in accordance with the provisions of the special legislative acts, the Boston Metropolitan District may provide funds for the Elevated to retire its bonds and in place thereof issue bonds to the Boston Metropolitan District for the same amount.

Chapter 544 of the Acts of 1947: This chapter provided for acquisition and operation, by the Metropolitan Transit Authority, of entire assets, property and franchises of the Boston Elevated Railway. Under the terms of this chapter the Trustees of Boston Metropolitan District borrowed \$22,868,000.00 by public issue of twenty-five year serial bonds paying interest at a rate of 1 7/8% per annum. The Boston Metropolitan District, with the proceeds of this loan, purchased \$22,868,000.00 in bonds of the Metropolitan Transit Authority dated August 15, 1947, maturing August 15, 1972, bearing interest at the rate of 2 7/8% per annum until June 1, 1958 and thereafter at 3 7/8% until maturity.

With these funds the Metropolitan Transit Authority

1. Paid \$20,298,000.00 to acquire the assets, etc., of the Boston Elevated Railway Company. This payment was calculated at the rate of \$85.00 per share of common stock of this Railway.
2. Established a reserve fund of \$2,000,000.00 as required by Chapter 544.
3. Retired \$570,000.00 in bonds of the Boston Elevated Railway Company which had been assumed by the Metropolitan Transit Authority.

Chapter 544 also authorized the Metropolitan Transit Authority to issue bonds or notes to the Boston Metropolitan District to provide funds for the purchase of cars, buses and trackless trolleys, but placed a limit of \$10,000,000.00 on the total principal amount of such borrowings to be outstanding at one time and a twenty year limit on periods of individual borrowings made under this authority. Under the provisions of this section the Metropolitan Transit Authority borrowed \$1,000,000.00 in March 1948 and \$2,175,000.00 in October 1948.

Chapter 544 further permits the Trustees of the Metropolitan Transit Authority to issue temporary notes at any time the cash position of the railway may require temporary funds, and leaves it to the discretion of the Trustees of the Boston Metropolitan District to decide whether or not the District shall purchase such temporary notes.

Under the provisions of this section the District purchased two short-term notes of the Metropolitan Transit Authority totaling \$7,000,000.00. These notes dated August 12, 1948 and January 25, 1949 bearing interest at .92% and .84%, respectively, were paid on March 25, 1949.

Also under Chapter 544 the District on August 1, 1949 issued \$1,014,000.00 in twenty year bonds at an interest rate of 1 3/4% for the purpose of refinancing a bond issue of the District which fell due on that date. The original amount of this issue totalled \$1,581,000.00.

Chapter 572 of the Acts of 1949: (A) Transactions between the Boston Metropolitan District and the Metropolitan Transit Authority:

On August 3, 1949 the Boston Metropolitan District owned the following railway bonds:

Boston Elevated Railway Company, \$74,049,917.00; Metropolitan Transit Authority, \$26,885,000.00, or a total of \$100,934,917.00. These bonds, excepting \$3,003,000.00 in serial bonds of the Metropolitan Transit Authority issued under Section 22 of Chapter 544 of the Acts of 1947, were surrendered by the Boston Metropolitan District to the Metropolitan Transit Authority for cancellation on August 3, 1949, and, thereupon, the Metropolitan Transit Authority issued to the Boston Metropolitan District one single bond for \$71,418,371.89 which equalled the amount of the District's own outstanding obligations less \$561,628.11 in cash held by the District. As a result of these transactions the annual cost to the Metropolitan Transit Authority in retirement of its debt to the District will be -

- a. One million dollars to be paid annually to the District in reduction of the principal of the District's serial bonds outstanding.
- b. The actual interest payable by the District on its own serial bonds outstanding.
- c. The actual interest on new District serial bonds or temporary loans issued for refunding purposes.

It is immediately obvious that the one million dollars to be paid annually by the Metropolitan Transit Authority will not produce sufficient funds to meet the Boston Metropolitan District's principal payments. The District is therefore unauthorized under Chapter 572 to issue new refunding bonds, as required, to provide for obligations not covered by this annual payment.

On August 8, 1947 the Department of the State Auditor issued a report on the examination of the accounts of the Boston Elevated Railway. Page 47 of that report, in referring to the debt of the railway, states in part:

"The debt of the District, if assumed by the new Authority and distributed over a period of years by long-term financing, can measurably contribute to the reduction of current deficits."

In substance, Chapter 572 of the Acts of 1949 follows this recommendation, since under its provisions this debt will be reduced annually by one million dollars since the Metropolitan Transit Authority will henceforth pay annually to the District \$1,000,000.00 for retirement purposes, plus the District's interest requirements, and any District obligations falling due which are in excess of \$1,000,000.00 in any year will be refinanced by the District.

While this legislation is an improvement since it provides for an orderly and equitable retirement of this debt and relieves the taxpayer of today from paying more than his necessary share of these obligations, it is felt that such legislation should not fix the rate of retirement at \$1,000,000.00 per year, but should be amended to require that not less than \$1,000,000.00 of debt per year should be retired. Should the Metropolitan Transit Authority, under today's higher fares and with a further improvement in management, coupled with savings under economical administration, be in a position to accelerate debt retirement, the amended statute should permit all available funds in excess of operating requirements be used solely for such purposes.

(b) Transactions between Boston Metropolitan District and the City of Boston:

On August 3, 1949 the debt of the City of Boston, resulting from subway construction, totalled \$54,048,500.00 and at the same time the City held in sinking funds to apply against these obligations a total of \$13,829,054.57. Under the provisions of Chapter 572, on August 3, 1949 the Boston Metropolitan District issued bonds to the City of Boston in payment for title to the various City-owned subways used by the Metropolitan Transit Authority in a total of \$40,219,445.43. Individual non-interest bearing bonds were issued under this transaction, each adapted to a particular sinking fund of the City, representing the difference by which the outstanding debt exceeded the balance held in the particular sinking fund involved. These bonds guarantee that ten days before any bond issue of the City falls due the District will pay to the City a sum sufficient to meet the amount by which that obligation of the City shall exceed the balance available in the particular sinking fund involved. The District also issued a note to reimburse the City for any losses resulting from sale of securities held in the sinking funds and further promises to pay to the City, ten days in advance of the due date, any interest payments required of the City on its own bonds which are in excess of interest earned by sinking fund securities. Thus under the provisions of Chapter 572 the City is apparently fully protected in the retirement of its obligations. Substantial savings in interest costs will eventually result to the taxpayer under this procedure as the older rate interest bonds are paid off and replaced in part by new low rate interest bonds issued under the credit of the District. It is worthy of comment that the District has acquired properties which have cost the City approximately \$70,000,000.00 for \$40,219,445.43.

The Boston Metropolitan District, to meet the obligations incurred by this transaction, has received from the Metropolitan Transit Authority a Transit Bond totalling \$40,219,445.43, dated August 3, 1949, maturing on November 20, 2024. Under its terms the District, through the State Treasurer and by direct assessment on the cities and towns of the District, will annually receive \$536,259.27 in reduction of the principal amount of the bond, and, as interest, the Metropolitan Transit Authority will pay to the District any interest payments which the District may incur as a result of borrowings to meet District obligations in connection with its subway debt. The Authority also executed a note undertaking to pay on behalf of the District all amounts which the District will be required to pay to the City on the note issued by the District.

We find it necessary to direct attention to provisions already described in this Section of Chapter 572 of the Acts of 1949 which relate to retirement of the debt incurred as a result of taking over the City of Boston debt in connection with the construction of subways. The Act, without consideration of the future ability of the Metropolitan Transit Authority to meet this obligation out of income, provides that the State Treasurer on November 20 of each year shall pay $1\frac{1}{3}\%$ of the total of such debt to the Metropolitan Transit Authority and shall then assess that amount on the cities and towns of the District. This obligation should not be treated separately but should be a primary obligation of the Metropolitan Transit Authority and should the Metropolitan Transit Authority be unable to meet it out of income then it should be included in Metropolitan Transit Authority deficits reported from operations to be assessed on the cities and towns of the District.

NEW BEDFORD, WOODS HOLE, MARTHA'S VINEYARD AND
NANTUCKET STEAMSHIP AUTHORITY

Section 14 of Chapter 544 of the Acts of 1948 provides in part as follows:

"SECTION 14. Report. -- On or before the thirtieth day of January in each year, the Authority shall make an annual report of its activities for the preceding calendar year to the governor and to the general court. Each such report shall set forth a complete operating and financial statement covering its operations during the year. The Authority shall cause an audit of its books to be made at least once in each year by the state auditor, and the cost thereof may be treated as part of the operation of the project. Such audits shall be deemed to be public records within the meaning of chapter sixty-six of the General Laws."

General: During the fiscal year ending June 30, 1950, no audit of this agency was conducted since the legislature failed to provide an appropriation for the purpose. The budget of this department for the fiscal year 1951 does include the necessary funds, and an examination will be initiated and carried through to December 31, 1950.

